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Condense Course for Insurance Professional Exam

Principles of Insurance: Paper No. 01 of Insurance Institute of India

Highlights

Principles of Insurance

Chapter wise Scanning

Solved Objective Type Questions

Strictly as per syllabus of I.I.I, Mumbai

Edited and Compiled by

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Accredited Learning Centre of
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ISBN: 978-81-922635-0-5

Published By:
Insurance Foundation Centre(R),
Anand Theatre Complex (Opposite Taj Hotel),
Chamber No: 7-9, Basement.
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ISBN: 978-81-922635-0-5

Second Edition: January 2013

PRICE: Rs.300/- (Three Hundred only)

Plus courier charges: Rs.50/-

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PREFACE

This book has been prepared for candidate appearing for Insurance professional Exams including simplified notes on examination pattern and practice questions. This book can also be useful for candidates appearing for Brokers, Surveyors, Associate and promotional examinations.

To prepare this book we have taken into consideration the key areas on which candidate need to focus. Practice questions have also been introduced to help the candidates for testing self evaluation. The Flashes have been provided at the beginning of each chapter with a view to highlight the key terms and concepts of the course that will be effective for the final study.

We would like to acknowledge the fact that this book is the outcome of combined efforts of Insurance Foundation Centre(R) along with co-ordination of Chandigarh Insurance Institute. The reader will find the book not a dry, compiled material but a 'Live' interactive presentation, of course there must be multiple issues that must have remained uncovered in this book, so we do welcome your inputs regarding the topics for future improvisation and better output.

Given the unique combination of effort, creativity, and care that so many talented people contributed to this venture, we are sure this book will contribute to learning skills of readers.

K.N.S. SODHI SURENDER PAL

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GENERAL INSTRUCTIONS

Revised Examination Specification

- ONE PAPER
- Time – 02.00 hrs
- Total Marks – 100
- Passing Marks – 60
- Online Examination
- Offline Examination

HOW TO READ QUESTION PAPER/INSTRUCTIONS FOR ATTEMPTING

- Read Question One by One.
- Read Silently. Do not mutter or hum words aloud when you read.
- Do not read one word after another, Read several Words every time you set your eyes on the question. Read in sense groups, or in group's words which together make one sense or meaning.
- Read without the help of clue. Moving pencil/pen/Index figure will slow down-your speed. So move your eyes only.
- Using these tips, fast reading can be developed, without missing out on understanding. Keep guessing the meaning of unfamiliar or difficult words from neighboring words or in which context they are used.
- If you are not sure about an answer leave and go ahead.
- Attempt those questions first about which you are confident.
- Now start attempting the questions about which you are not confident.
- Give appropriate time to each question applying your commonsense and reasoning.
- Attempt all questions as there is no provision of negative marking.

INDEX

CHAPTER 1

RISK MANAGEMENT

This chapter deals with understanding of risk management, different types of risks, how the risks are managed and techniques used to reduce them.

Meaning of risk and distinguish between different types of risks.

Peril

Life is very uncertain. Any person can meet with death due to some unfortunate or unexpected event at any point of time. Assets are also likely to be destroyed or made non-functional due to accidental occurrences before the expected life time.

Hence, assets need to be insured. Peril is the cause of loss. Anything that causes the loss is a peril.

Example: fire, flood, earthquake, lightning, landslide etc.

An event or incident that may cause a loss is called a peril.

Different types of perils:

- Fire
- Landslide
- Flood
- Earthquake
- Lightning

Insurance does not protect the asset.It does not prevent its loss due to the peril, and the peril cannot be avoided through insurance. Insurance only tries to reduce the impact of the financial loss on the owner / beneficiary of the asset.

Risks

Perils differ according to frequency and intensity. If such perils can cause damage to an asset, we say that the asset is exposed to that risk.

Risk is uncertainty of outcome. If there is a chance that the outcome will be different from expectations, there is a risk.

EXAMPLE:
A person wants to take insurance for his office against the risk of loss due to fire. The occurrence of fire in this case is uncertain. The fire may occur or may not occur. So the insurance company will issue a policy to cover the risk of loss due to fire. But if a forest fire has already started nearby and is threatening to burn down the office, it is certain that the fire will occur and destroy the office leading to losses, then the insurance company will not cover the risk.

In the case of a human being, death is certain, but the time of death is uncertain. So life insurance companies cover the risk of loss due to death even though death is certain, but the timing of death is uncertain. In the case of a person suffering from a killer disease like HIV AIDS the timing of death is not uncertain, though not exactly known. The life span of such people is short and hence it is unlikely they can be insured.

Classification of Risks

Different **classifications of risks**

- Catsatrophic Risks
- Financial and non-fiancial risks
- Dynamic and static risks
- Pure and speculative risk
- Fundamental and particular risks

Risks can be classified into five broad categories

❖ **Catastrophic and important risks**

Risks can be classified on the basis of extent of damage likely to be caused. **Critical or catastrophic** risks are risks where a single event of major magnitude leads to a significantly higher than usual number and/or amount of claims on an insurer. Catastrophic risks are big enough to cause bankruptcy of the owner or even the insurer.
Example can be natural disasters like earthquake, floods or tsunami where everything is destroyed. It can also happen if the deceased person had lot of outstanding loans like home loan, car loan, credit card dues etc.

There could be important risks, which may upset family or business finances badly, requiring lot of time to recover. But such risks may not be categorised as Catastrophic.

❖ **Financial and non-financial risks:**

Risks can also be classified as financial and non-financial. Financial risks are those risks that lead to losses that can be quantified or measured in monetary terms.

Example: Financial risks are related to changes in the value of assets like shares or property.

Non-financial risks are those that can't be measured or quantified in monetary terms.

❖ **Dynamic and Static risks:**

Dynamic risks are those resulting from changes in the economy. Changes in the price level, consumer tastes, fashions, income and output, technology, political upheavals or Government suddenly losing vote of confidence may cause financial loss to the members of the economy. Dynamic risks normally benefit society over the long run. Since dynamic risks may affect a large number of individuals, they are generally considered less predictable than static risks and are **non-insurable**.

Static risks involve those losses that occur even if there were no changes in the economy. If consumer tastes, output and income, and the level of technology do not change, some individuals would still suffer financial loss. These losses arise from causes other than the changes in economy, such as perils of nature and dishonesty of other individuals. Unlike dynamic risks, static risks are not a source of gain to society. Static losses involve either the destruction of an asset or a change in its possession as a result of dishonesty or human failure. Static losses tend to occur with a degree of regularity over time and, as a result, are generally predictable.

Static risks can be managed through **insurance** as their frequency and possibility can be studied and forecast.

Example of static risk can be small fire or theft in one particular house. Static risks are more predictable and more likely to occur as compared to dynamic risks.

❖ **Pure and speculative risks**

Speculative risks are under the control of the person concerned.

For example, a person betting in a lottery or horse racing may win or lose the money.

Pure risks are not under the control of the concerned person. In pure risks, there is a chance of loss but no chance of gain.

Insurance covers only pure risks and not speculative risks.

Some examples of pure risks are fire, earthquake, theft or death of a person.

❖ **Fundamental and particular risks:**

Fundamental risks are those risks that affect a lot of people together.

Example: a train accident is a fundamental risk as it affects a lot of persons.

Particular risks affect only specific persons.

Hazards

Hazard is a condition that increases the chances of loss. It is something that accelerates the peril.

> **EXAMPLE:**
> If there is a fire in an explosives manufacturing unit, the explosives will result in a rapid spread of fire destroying everything in a very short time.

Types of hazards

Hazards can be classified into two categories as physical hazards and moral hazards.

Physical Hazard: This refers to the characteristics and qualities of the subjectmatter which is proposed to be insured.

Example: Some examples of physical hazards are:

- ❖ Smoking is a physical hazard that can increase the likelihood of a fire.
- ❖ Loose wiring or open live wires in a house can result in short circuits and fire. These are a physical hazard in the case of fire insurance.

The probability of damage is greater in these cases.

Moral Hazard: This refers to the character of the person who is approaching the insurance company for insurance. If his/her intentions

are malafide (cheating the insurers or making profit out of insurance), then the moral hazard is high. Moral hazards are losses that result from dishonesty. Dishonest persons are likely to attempt fraud and make money, taking advantage of the available facilities of insurance. Insurance companies suffer losses because of fraudulent or inflated claims. Moral hazard can also increase because of carelessness on the part of individuals. This is referred to as morale hazard.

In some contexts, the term Morale Hazard is used to specifically identify the attitude of the person who is insured. If the person becomes careless just because he is insured and does not take adequate care of the subject matter, there is a morale hazard in the proposal. Morale hazard increases the possibility of a loss that results from the insured person not taking due care about losses and taking fewer precautions.

Physical hazard can be assessed by examining the subject matter proposed for insurance. However, assessment of moral and morale hazard are more difficult and need experience and intuition and also past history of the proposer.

Example of moral hazard can be a person taking life insurance by fraudulently suppressing the fact that he is suffering from a critical / terminal illness.

Advanced technology has resulted in better assessment of hazards and risks for insurance companies. This has helped insurance companies in pricing their products better. Early warning systems and new construction materials have reduced the probable extent of damages in the event of natural calamities.

The term hazard is generally used when the condition causes, increases or influences the risk resulting in a loss.

Question 1

Political upheaval or government suddenly losing voting of confidence will be classified as which type of risk?

A Dynamic risk

B Static risk

C Particular risk

D Financial risk

Risk analysis and risk management techniques.

Risk identification and analysis

The purpose of risk management is to identify and eliminate, or at least reduce risks.

Risks are possibilities, not certainties and are measured by the loss that may happen if a peril strikes. The actual loss can range from nothing (zero) to total loss of the subject matter of insurance. The actual loss will include the costs of:

a) repair, replacement or reinstatement

b) the consequential losses until repair, replacement or reinstatement

Consequential losses will be:

- ❖ expenses for cleaning up and removal of debris
- ❖ loss of rent, production, revenue and profits until normalcy is restored
- ❖ possible liability losses for third party injuries

Types of Losses

- Actual loss
    - Repair or Replacement or
    - Reinstatement
    - Consequential losses
        - Expanses for cleaning up and removal of debris
        - Loss of rent, production, revenue and profits until normalcy is restored
        - Possible liability losses for third party injuries

The total loss that can happen is referred to as the Maximum Possible Loss (MPL). The risk exposure is the MPL multiplied by the probability of the peril striking. This is called the Probable Maximum Loss (PML).

MPL x Probability of Peril Striking = Probable Maximum Loss (PML)

Both these measures are necessary to understand risk. Risk management begins with identifying and then analysing risks. MPL and PML are two factors that help identify and analyse risks. The third factor that must be looked at is the credibility of the data that has been used in the analysis.

Risk Management

There are five ways to mange risks.

1. Identify/ Access
2. Prevent/Avoid
3. Reduce
4. Retain (Self insurance)
5. Transfer (insurance)

When risk is retained, it is implied that the cost of the damage will be met out of internal resources. Organizations can meet these costs in two ways:

- ❖ from the current revenue, as and when losses occur
- ❖ create a special fund specifically to meet these costs in future

The advantage of creating a special fund is that the costs are spread out between the good and the bad years as the size of the damage in any one year cannot be predicted.

Costs include not only the amount of rupees required to be spent to implement the alternative, but also the potential loss of revenue and costs associated with negative publicity for the products. Prevention of risks may be perceived to cost too much, however, when compared to the overall benefits the cost of prevention is never ‘too much’. The objectives will influence the decision on how much is ‘too much’.

Techniques of Loss reduction

There are financial risks related to financial resources. Some of the reasons for this are:

- ❖ fluctuations in the stock market
- ❖ exchange rate fluctuations
- ❖ political disturbances

Financial risks

Hedging is a technical term used to describe spreading of risk among different avenues that are unlikely to be affected in the same way by the same cause.

Methods used in industrial establishments to reduce physical risks include:

- early detection systems
- automatic responses to dangerous situations through instrumentations
- regular drills (mock drills) to test the readiness of people and systems to meet accidents

It is often noticed that while these valuable detection systems are installed; they are not properly maintained and as a result they do not work properly when they are needed.

Loss reduction techniques include:

- Separation: this involves isolating subjects exposed to the same risk. Examples of separation include:

  a) keeping inventories in different places

  b) the **'KEEP AWAY FROM'** instructions that are found on gas cylinders, flammable materials and dangerous medicines

  c) carriers of goods separating cargo which may ignite or contaminate if placed within a certain proximity of something else
- Duplication: this involves keeping 'back up' copies so that any loss will neither interrupt business nor be irretrievable
- Diversification: this involves spreading risks across areas which may not be affected equally or at the same time. Diversification is possible in business (making products which are in demand at different times or products for different markets) and in investments (not investing all funds in one company).

Retention and transfer are referred to as risk financing techniques – they seek to make good the losses. Other than insurance; risk transfer techniques include:

- **Indemnity agreements**: where one party agrees to compensate another party for losses they may incur. Indemnities are common when the risk is attributable to the behaviour of the indemnifying party.
- **Hedging**: where a financial transaction is made to offset the loss in another.

This is done when the risks in the two transactions are considered reciprocal or moving in opposite directions.

Implementation and monitoring of risk management techniques, excluding financial alternatives, must have the total involvement of all

personnel concerned with the operation. They must be trained in the technique decided upon and must understand what the proposed actions are trying to achieve as well as the consequences of neglect.

EXAMPLE:
A watchman at an oil storage depot caused a major fire when he was smoking in the depot. The watchman was aware that smoking was banned in the depot and so hid in a corner before lighting his cigarette. His concern was not getting caught breaking the rules.
This example shows that even though personnel are aware of the rules, they also must understand why the rules are in place and what the consequences of breaking the rules are.

The choice of alternatives for risk management should focus on its consequences or impact on others. It is wrong to discharge effluents into a river in order to avoid risk in one's premises. When products are found to be defective, producers usually resort to one of the following:

❖ withdraw the entire product from the market until it is tested for safety and quality standards
❖ Blame others – some blame bottlers, retailers or distributors for improper storage. Others blame competitors for causing problems.

Ethical considerations are as important as the financial and technical considerations.
Every insurer has a limit to its risk bearing capacity and therefore cannot insure as much risk as is offered by the market. The capacity of the insurer is related to their capital and reserves. Business that is beyond the insurer's capacity is managed through reinsurance arrangements.

Question 2
How are risks measured?
A. The cost of actual loss
B. The cost of consequential loss
C. The likely loss that may occur if a peril strikes
D. The likelihood for a peril striking

Risk retention for individuals

Risk management as a subject of study evolved formally as a function of business enterprise. The principles of risk management apply to individuals as well, but in a less complicated manner. An example of this is balancing multiple demands and choosing between different investment and savings options. Regardless of having or not having insurance, the risk does not disappear.

EXAMPLE:
In the case of the life of an individual, there is an option to transfer the risk to an insurer by way of a life insurance policy or the risk can be retained by not taking life insurance. In the event of untimely death of the individual, if the risk has not been transferred to an insurer, the surviving dependants bear the brunt of coping with the loss of income. The risk has then effectively been transferred to the dependants. How would the individual's decision to retain risk impact the surviving dependants?

- They may be required to dispose of assets such as cars, motorcycles etc. which may be seen as less important in the immediate situation.
- Housewives may need to learn new skills in order to start working, possibly in jobs that are beneath their status.
- The family may need to move to a new dwelling in new surroundings to avoid the disrespect of their reduced status in life.
- Children may need to forego their education in order to support the family.

Without insurance, businesses may need to be closed down if the proprietor dies suddenly, the shop burns down or there is a major burglary. The immediate problem would be repaying debtors and financiers who would want to collect outstanding debts. When houses collapse either due to poor construction or an earthquake, families have been thrown onto the street with no shelter. Rebuilding a house or a business again is neither easy nor quick, even with the benefit of insurance money. Without insurance money it is even more difficult.

Question 3

How did risk management formally evolve?

A. As a function of business enterprise

B. As a function of debt collectors

C. As a function of financial lending

D. As a function of investment organisation

Summary

❖ Peril is an event or incident that may cause a loss. Examples of perils can be fire, flood, earthquake, lightning, landslide etc.

❖ Insurance cannot prevent the occurrence of the peril or the resultant loss due to a peril. Insurance only tries to reduce the financial loss on the owner / beneficiary of the asset.

- ❖ Risk is uncertainty of outcome. If there is a chance that the outcome will be different from expectations, there is a risk.
- ❖ Risks can be classified as catastrophic and important risks, financial and nonfinancial risks, dynamic and static risks, pure and speculative risks, fundamental and particular risks.
- ❖ Hazard is a condition that increases the chances of loss. It is something that accelerates the peril.
- ❖ Hazards can be classified as physical hazards and moral hazards.
- ❖ Physical hazard refers to the characteristics and qualities of the subject matter which is proposed to be insured.
- ❖ Moral hazard refers to the character of the person who is approaching the insurance company for insurance.
- ❖ The actual loss arising out of a peril striking includes costs of (a) repair, replacement or reinstatement and (b) consequential losses until repair, replacement or reinstatement.
- ❖ Ways of managing risks include: prevention of risk, reduction of risk, retaining risk, transferring risk.
- ❖ Loss reduction techniques include separation, duplication, diversification, indemnity agreements, hedging etc.
- ❖ An individual can manage the risk associated to his / her life by transferring it to an life insurance company by buying a life insurance plan.

Answers to Test Yourself

Answer to TY 1

The correct answer is A.

Political upheaval or government suddenly losing voting of confidence will be classified as dynamic risk

Answer to TY 2

The correct option is C.

Risk is measured by the likely loss that will occur if a peril strikes.

Answer to TY 3

The correct option is A.

Risk management evolved as a function of business enterprise.

Self-Examination Questions

Question 1

The total of the actual loss and the consequential loss is known as the _____________.

A. Maximum Probable Loss

B. Probable Maximum Loss

C. Maximum Possible Loss

D. Minimum Possible Loss

Question 2

Separation and duplication are examples of ____________

A. Consequential losses

B. Hedging

C. Loss reduction techniques

D. Financial risks

Question 3

Probable Maximum Loss or PML is determined using the Maximum Possible Loss (MPL) and which other factor?

A. The probability of the peril striking

B. The cost of implementing loss reduction techniques

C. The cost of the actual loss

D. The cost of consequential losses

Question 4

If the cost of damage is being met using internal resources / funds, how is the risk being managed?

A. Avoidance / prevention

B. Transfer

C. Reduction

D. Retaining

Question 5

Spreading risk across areas which may not be affected equally or at the same time is called __________

A. Diversification

B. Separation

C. Duplication

D. Transfer

Answers to Self-Examination Questions

Answer 1

The correct option is C.

The total of the actual loss and the consequential loss is the Maximum Possible Loss.

Answer 2

The correct answer is C.

Separation and duplication are examples of loss reduction techniques.

Answer 3

The correct answer is A.

The Probable Maximum Loss (PML) is determined by multiplying the MPL and the probability of the peril striking.

Answer 4

The correct answer is D.

If the cost of damage is being met by using internal funds, the risk is being retained.

Answer 5

The correct answer is A.

Diversification is the term used for spreading risk across areas which may not be affected equally or at the same time.

CHAPTER 2

THE CONCEPT OF INSURANCE AND ITS EVOLUTION

Learning Outcomes:

a) Understand the concept of insurance.
b) Be aware how insurance evolved
c) Understand how insurance works.
d) Discuss the different classes of insurance
e) Appreciate the importance of the insurance industry.

The concept of insurance

Need for Insurance

To understand the concept of insurance, first we have to understand the need for insurance. The three situations discussed below will explain the need for insurance.

EXAMPLES:

Situation 1: Imagine that you own a car. Think of some of the risks associated with your car. These can include:

- the risk of damage to the car due to any unexpected event
- the risk of a car accident and injury to the driver
- the risk of the car being stolen
- the risk of the car running over someone on the road causing injury and the legal liability on the owner of the car to compensate the injured.

Situation 2: Imagine that you are working with a company. Think of some risks related to your job. These can include:

- the risk of untimely death due to some unexpected event or loss of income for the remaining working life span
- in case of untimely death, the responsibilities you leave behind, such as children's education, children's marriage, home loans etc.
- the risk of falling ill and loss of income for a temporary time period
- the risk of an accident, temporary disability or loss of earning capacity for the remaining working life

Situation 3: Imagine that you own a business. Think of some of the risks associated with your business. These can include:

- the risk of damage to your premises or machinery due to floods, fire, earthquakes etc.
- the risk of damage to the raw materials or finished goods
- the risk of theft of stock or money

Do all the above risks worry you? You need not panic as insurance can provide a cover against all the above risks.

- In the first situation, motor insurance can provide you with a cover against risks related to your car.
- In the second situation, life insurance can provide you with a cover against risks related to your life. If you fall sick, health insurance provides you the medical costs.
- In the third situation, fire/ property insurance can provide you with a cover against risks related to your business.

Types of Insurance:

- Motor insurance
- Life insurance
- General insurance

So, to protect yourself from the risks associated with the assets and to continue enjoying benefits from it, you need insurance.

Concept of Insurance

The business of insurance is related to the protection of the economic value of assets. An asset is valuable to the owner because they get income or benefits from it in the form of comfort and convenience.

- In the first situation, owning the car as an asset does not give the end user any monetary income. But at the same time, the car provides the owner comfort and convenience in transportation.
- In the second situation, a human life is an income generating asset.
- In the third situation, the business owner can sell finished goods and generate income. So here the business is an income generating asset. This includes the premises and the contents of the building like machinery, raw and finished goods.

Therefore, in all the above three situations, the owner would like to have benefits from these assets.

All the assets have timelines and cannot be expected to last forever. So the benefits provided by these assets will last only for a certain period of

time. In the above situations, the car as an asset has a life-time of say 10 years or 15 years.
Human beings work until the age of 60 years, which is the normal retirement age. After retirement the monthly salary income benefit will not be available. During its life time, the asset will be exposed to certain risks such as:

- ❖ the car can be stolen
- ❖ a human being can fall ill or die
- ❖ the business can be destroyed by fire

If any of the above happens, the owner and those enjoying the benefits from these assets will be deprived of the benefits. At the same time, there may be no immediate substitutes ready. Also any substitution would involve an unforeseen economic burden. This may lead to an adverse or unpleasant situation. In such situations, insurance comes in handy. Insurance is a mechanism that helps to reduce the financial effects of such adverse situations.

DEFINITION:
An insurance company (referred to usually as the insurer) promises to pay to the owner (insured) or beneficiary of the asset, a certain sum of money (sum assured), if a loss occurs, so that they may try to ensure continuance of the financial benefits. The insured pays a certain amount (consideration) to the insurance company for bearing the risk, which is known as premium.
Insurance can also be defined as a co-operative arrangement to spread the loss caused by a particular risk over a large number of people who are exposed to it, in exchange for a small sum of money.

Insurance can also be defined as a process of transferring the risk from someone who cannot bear it, to someone who has the capacity to bear for such risk, in return for a consideration.
In simple terms, insurance is:

- ❖ a process of;
- ❖ passing or transferring the risk of incurring loss by the owner (who cannot bear the risk) of an asset;
- ❖ to the other party (insurance company) who can bear the risk;
- ❖ in return for a consideration (premium).

An accident or an event like fire may happen or may not happen. The owner can take precautionary steps to prevent the event. But still there is a likelihood that the event may happen. It is in such situations that insurance steps in and assures the owner that the benefits will be protected. The insurance company covers only those events that are possible to occur but are not certain. If the occurrence of an event at a given point of time and its impact are certain then the insurance company may not cover such events. In short, insurance means **'loss of a few shared by many'**.

Question 1

The proposer pays a consideration to the insurance company for bearing the risk on his behalf. What is this consideration known as?

A. Enrollment fee
C. Installment
B. Premium
D. Bonus

Be aware how insurance evolved

Life is uncertain and so are businesses. Just as the life of a person is prone to various risks, businesses are prone to various risks. People and businesses need something to spread these risks among all who are exposed to similar risks and transfer these risks to entities that have for the capacity to bear them. This is how the business of insurance evolved. The history of insurance is almost as old as the existence of humans. Some of the milestones related to history of insurance are:

- Over 5000 years back, Chinese traders used insurance as a preventive measure against piracy. The cargo of each ship used to be distributed among other ships, so that if one ship gets lost or captured by pirates the loss would only be partial.
- The first written insurance policy was on a Babylonian obelisk monument with the code of King Hammurabi. The Hammurabi Code was one of the first forms of written laws. The basic insurance gave the Babylonian traders protection against loss of cargo.
- In 1666, the Great Fire of London destroyed more than 13000 houses. To counter such events in future, Fire Office, the first fire insurance company was started in 1680.
- Traders in London used to gather at Lloyd's Coffee House and agree to share losses of goods due to piracy or the ship sinking due to bad weather or other reasons.

History of Insurance in India

In India, insurance began formally in the 18th century. The following are some of the early companies who started operating in India.

Year	Event
1818	1st life insurance company – Oriental Life Insurance Company was established in Kolkata
1829	Madras Equitable was established in Madras (Chennai) Presidency
1850	1st non-life insurance company - Triton Insurance Company Limited
1870	Bombay Mutual was started in Mumbai
1874	Oriental was started in Mumbai
1896	Bharat Insurance Company Limited was started in Delhi
1897	Empire of India was started in Mumbai

The growth of insurance business in India required the enactment of the Insurance Act, 1938

Life Insurance Corporation of India (LIC)

In 1956, the life insurance business in India was nationalised and the Life Insurance Corporation of India (LIC) was formed on 1st September 1956.

General Insurance Corporation (GIC)

In 1973, general insurance business was nationalised in India and the General Insurance Corporation of India (GIC) and the four subsidiaries; National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited were formed. As part of the nationalisation process, the funds of all existing companies were merged with the four subsidiaries of the GIC.

Further Changes:

Till 1999, LIC had the exclusive right over life insurance business in India. In 1999, the relevant laws were amended and the life insurance sector was opened for business to private players. In 2010, there are 23 life insurance companies transacting life insurance business in India.

Liberalisation of the Indian Insurance Sector

Insurance in India is governed by the Insurance Act, 1938 as amended from time to time. It lays down the rules and regulations for the insurance industry. The Insurance Regulatory and Development Authority (IRDA) Act was enacted in 1999. IRDA is the regulator for insurance business in India.

- In the year 2000, the insurance sector was liberalised and opened up for business to the private sector. Foreign Direct Investment (FDI) was allowed in insurance upto 26% wherein the foreign players were allowed to enter into joint ventures with domestic players
- Lot of domestic players joined hands with foreign partners who brought in valuable expertise and capital.
- Opening up of the insurance sector has led to emergence of innovative insurance products and has also helped in deeper spread of insurance.
- Liberalization brought in the much needed competition and better customer service.

Question 2

How much is the maximum Foreign Direct Investment (FDI) allowed in insurance in India?

A. 26%
C. 74%
B. 49%
D. 100%

How insurance works

The insurance industry works on the concept of pooling. People who are exposed to similar risks are brought together. The members in the group agree that, if anyone of them suffers a loss, the other group members will share the loss and compensate the person who suffered the loss. The compensation is expected to put the person in the same place, financially as he was before suffering the loss.

Marine Insurance

- Ship owners contribute premium
- Insurance company
- Claim settlement

Instead of the people from the group coming together on their own, the insurance company acts as an intermediary and brings them together. The members who are exposed to the same risk contribute money to a pool, which is maintained by the insurance company. Each member's contribution is known as a 'premium'.

When any member suffers a loss, the insurance company pays compensation from this common pool. In this way the risk is spread among the members of the group and the probable big impact on one is reduced to smaller, manageable impacts on all. The larger the number of members in the group, the easier it is to share the risk. The premium paid by each member is proportionate to the risk he is exposed to.

In India, the premium is collected by insurance companies in advance at the time of admission of the member to the group. A fund is created from the premiums collected and is used to settle claims of members who suffer losses. The maximum amount that a person can receive is known as the sum assured (SA).

EXAMPLE:

There are 500 cars in a city. It is expected that, on an average, 1% of the cars or 5 cars, may meet with an accident in a year. The economic value of the loss suffered by the owner of each car is taken to be Rs. 10,000. Let us see how the premium will be calculated in the above scenario.

Total number of cars	500
Economic value of each car	Rs. 10,000
Number of cars expected to meet with an accident	5
Total expected loss Rs. 10,000 * 5 =	Rs.50,000
Number of car owners among whom the loss is to be distributed	500
Loss that each car owner has to bear Rs. 50,000 / 500 =	Rs. 100
Premium to be charged per car owner	Rs. 100

Fire insurance:

- ❖ House owners contribute
- ❖ Insurance company
- ❖ Claim settlement

In the case of human beings, the premium will be influenced by the following factors:

Age	For people belonging to a given age bracket say 31 – 40 years, the higher the age, the higher will be the premium. Given that all other factors are same in this age bracket, the premium for the person aged 31 years will be the lowest and the premium for the person aged 40 years will be the highest.
Sex	Insurance companies may charge different premiums for males and females based on their exposure to risks in their workplaces and longevity.
Profession	People who are in professions where the risk is more than other normal professions -for example, people working in underground mines and explosives factories are exposed to higher risks than people in other professions, such as the IT industry.
Habits	People who consume tobacco and alcohol or smoke will be charged higher premiums compared to other people.
Health Conditions	People in good health will be charged lower premiums than people suffering from some diseases, disorders and disabilities.
Family History	If there is a family history of ailments like diabetes, cancer, heart problems etc. then the person may be charged a higher premium as compared to others.

The probability depends on the hazard. The company specifies the parameters of the hazard and works out the appropriate premium. This will be the standard, against which any insurance proposal will be measured.

If the risk is assessed to be greater than the standard, it is described as substandard and a higher premium may be charged.

> **EXAMPLE:**
> If smoking is considered a hazard, a standard premium may be fixed for nonsmokers. Smokers may be charged a higher premium.

If the risk is assessed to be a lot higher than the standard, the insurer may also decline to accept the proposal for insurance.

> **EXAMPLE:**
> If the applicant is suffering from cancer (stage 4 or high) they may not survive for a long time. In this case the insurance company may decline to accept the proposal for insurance as the risk involved is very high.

Risks that are significantly lower than the standard risks are preferred by insurers.

Insurance companies arrive at the premium to be charged based on their past experience. The probability of risk will depend partly on how frequently the peril may occur and how severe its impact can be. How frequently perils like earthquakes or storms may occur are not in anyone's control. But the extent of the damage will depend on the quality of construction of buildings, prior warning systems and evacuation, quality of communication, how soon the local authorities take up relief work etc. As and when changes happen in such factors, the probabilities will change. The insurers take these factors into consideration in arriving at the premiums.

To be insurable, the loss must be:

- likely to occur by chance
- identifiable in time (when it happened)
- quantifiable as an amount
- significant in terms of amount. Insurers don't accept petty losses of little value. Insurers lay down limits below which insurance will not be accepted
- predictable, reasonably well. This is made possible through the use of probability theories.

Transfer of Insurance Policy

Insurance is taken to compensate losses to the person taking the insurance policy. This means that if the insured asset is transferred to another person, and it is damaged, the insurance company will not pay the new owner, unless the insurance policy is also transferred. (However, in case of marine cargo insurance, the practice is different, which you will study later)

EXAMPLE:

Let us understand this better with an example. Ajay bought a new car. At the time of buying the car he bought motor insurance for his car. After using the car for 3 months, Ajay sold the car to Vijay. Vijay meets with an accident while driving the car. Vijay makes a claim to the insurance company through the motor insurance policy bought by Ajay. The insurance company will not pay the claim as the car has been transferred from Ajay to Vijay but the motor insurance policy has not been transferred from Ajay to Vijay. Transfer of the insurance policy

would need the consent of the insurance company. The insurance policy follows the person, not the property.

Question 3

There are 700 car owners in a city. On an average it is expected that 2% of the cars or 14 cars are likely to meet with an accident. It is expected the loss suffered by each of the 14 car owners will be Rs. 15000. How much will be the premium required to be contributed by each of the car owners to cover the losses?

A Rs. 100	C Rs. 300
B Rs. 200	D Rs. 400

Different classes of insurance

Classes of insurance

INSURANCE

- ❖ Life Insurance
- ❖ General Insurance
    - o Fire Insurance
    - o Marine Insurance
    - o Miscellaneous
        - ▪ Motor
        - ▪ Liability
        - ▪ Health
        - ▪ Burglary

Insurance business is broadly classified into life insurance and general insurance.

1. Life Insurance

Life insurance deals with covering the lives of human beings. In life insurance, the asset in question is the ‘economic value’ of the person. A person’s earning capacity depends on his skills, knowledge, ability and other factors. The family, employer and indirectly the users of products created by this asset (human beings) enjoy value and benefits. A human life is an income generating asset. But this asset can be lost through unexpected, early death or made non-functional through illnesses or disabilities caused by accidents. Death is certain, but its timing is uncertain. If death occurs very early in the career, insurance contributes to help those dependent on this asset.

Just as dying early is a problem, living too long can also be a problem.

> **EXAMPLE:**
> Based on his expenses in the retirement year and factoring the rise in future inflation and based on the life expectancy (for example 80 years) the person may have made financial arrangements for the next 20 years. But if the person lives too long, in this case beyond 80 years, then he will run out of financial resources. Life insurance can help in safeguarding people against such risks of longevity in the form of pension plans.

2. General Insurance

Non-life insurance or general insurance deals with covering non-human objects like animals, agricultural crops, goods, factories, cars etc. In some countries nonlife insurance is also known as Property and Casualty Insurance.

Non-life insurance also covers losses through individual behaviours like fraud, burglary, non-fulfilment of promises (in the case of repayment of mortgage loans) and negligence by professionals in their service. General insurance policies are mostly for one year and are renewable.

General insurance business is further divided into 3 categories:

- Fire Insurance
- Marine Insurance
- Miscellaneous(motor insurance, engineering, liability, burglary, fidelity, Health, personal accident)

Fire insurance deals with all fire related risks and will include damage due to riots, malicious acts, typhoons, cyclones, earthquakes and consequential expenditures related to these events.

Marine insurance deals with goods being transported by sea, air, rail or road as well as all marine related risks.

Apart from fire insurance and marine insurance all other businesses are included in the **miscellaneous class**. These include motor insurance, engineering, liability, burglary, fidelity, health, personal accident etc.

Accidents and illnesses to human beings are covered in health (non-life) insurance in India. But these are covered in life insurance in many countries. In India accidents and some critical illnesses are covered in life insurance only as additional cover (riders) along with the main life

insurance policy. In India, insurance on life of a person for death by accident only is treated as non-life insurance.

Question 4

Life insurance companies cover which types of risk?

A Risk of unexpected early death

B Risk of living too long

C Both of the above A and B

D None of the above

The importance of the insurance industry

The economy is directly linked to the non-life insurance business. By having insurance:

- Trade and industry get some steadiness and stability.
- Business owners can concentrate on their businesses without worrying about the vagaries of nature like floods, earthquakes, cyclones etc.
- Business owners know that in the event of natural calamities the insurance companies will come to their rescue to compensate the losses faced due to these perils.
- In the absence of insurance companies, the business owners will be exposed to the risk of losses due to these vagaries and will have to bear heavy losses in the event of any natural calamity.
- Insurance arrangements increase the capacity of those affected, to cope with these losses and incidental problems.

The business of general insurance is closely linked to international trade and industry. Insurance along with banking provides infrastructure for trade and industry to perform. Like banks, non-life insurance companies have associates in most of the countries that provide services related to inspection, salvages, documentation etc. Insurance introduces security, increases business efficiency and creates equitable distributions of losses. Insurance enhances creditworthiness, capitalises earning power, makes savings possible and thus enables investment. Insurance also reduces destitute, facilitates better health care and trade.

Broad Scope of Insurance Business

The concept of insurance has been extended beyond the coverage of tangible assets.

- If an exporter has exported goods, he faces the risk of the importer in the other country defaulting on the payment.
- There is normally a time lag of a few months between the exporter sending the goods and receiving the payment. During the time till the payment comes, the exporter is exposed to the risk of losses due to sharp appreciation in the domestic currency.
- Exporters also face a risk of changes in the economic policies in the home country or destination countries which may make the export business unfavorable.

All these risks can now be insured. These risks are insured by **Export Credit and Guarantee Corporation (ECGC)**, a Government owned company.

Professionals like Doctors, Lawyers, Accountants and Engineers run the risk of being charged with negligence and subsequent liability for damages.

EXAMPLE:

- An accountant can be sued by the client if he faces a loss because of wrong advice.
- An engineering company can be sued if a bridge built by it collapses claiming some lives.
- A doctor can be sued if a patient dies because of his negligence.

The amounts claimed in damages can be fairly large and beyond the capacity of the individual to bear. These risks are insurable in the form of professional liability insurance products. In some countries the voice of a singer or the legs of a dancer can also be insured.

Question 5

Importers and exporters facing risks related to foreign trade are covered by whom?

A. Insurance Regulatory Development Authority (IRDA)

B. Deposit Insurance and Credit Guarantee Corporation (DICGC)

C. Export Credit and Guarantee Corporation (ECGC)

D. Life Insurance Corporation (LIC)

Summary

- Insurance is needed to protect one from the risks associated with an asset and to continue earning the benefits from it.
- Insurance transfers the risk from the asset owner to the insurance company in return for a fee (premium).
- The first written insurance policy was on a Babylonian obelisk monument with the code of King Hammurabi. In India the 1st life insurance company was Oriental Life Insurance Company, which was started in Kolkata in 1818.
- In India, in the year 2000, the insurance sector was opened up to private players
- Insurance works on the concept of pooling wherein people exposed to the same risk are brought together by the insurance company.
- Insurance is mainly divided into two categories: Life Insurance and General Insurance
- Insurance promotes trade and commerce

Answers to Test Yourself

Answer to TY 1

The correct option is B

The consideration paid by the proposer to the insured for bearing the risk is known as premium.

Answer to TY 2

The correct option is A

The maximum Foreign Direct Investment (FDI) allowed in insurance in India is 26%

Answer to TY 3

The correct option is C

Each car owner will be required to contribute premium of Rs. 300. The calculation will be as follows:

14 cars * Rs. 15000 loss per car = Rs. 2,10,000

Rs. 2,10,000 / 700 car owners = Rs. 300 premium per car owner

Answer to TY 4

The correct option is C

Life insurance companies cover the risk of unexpected early death and also the risk of living too long (pension plans).

Answer to TY 5

The correct option is C

Importers and exporters facing risks related to foreign trade are covered by Export Credit and Guarantee Corporation (ECGC).

Self-Examination Questions

Question 1

Which of the below is a reinsurance company?

A. General Insurance Corporation (GIC)

B. Life Insurance Corporation (LIC)

C. Oriental Insurance Company Limited

D. United India Insurance Company Limited

Question 2

Which was the first company to conduct life insurance business in India?

A. Madras Equitable

B. Bombay Mutual

C. Oriental Life Insurance Company

D. Bharat Insurance Company

Question 3

There are 100 people in a village. On an average every year 4 people die. The economic value of each person is Rs. 25000. How much will be the premium required to be contributed by each person to settle the losses of the families of persons who die?

A Rs. 500

B Rs, 1000

C Rs. 1500

D Rs. 2000

Question 4

ECGC is owned by _____________.

A GIC

B All private and public life insurers

C Government

D All private and public general insurers

Question 5

The Life Insurance Corporation (LIC) was formed on _________.

A 1st January 1956

B 1st September 1956

C 1st January 1947

D 1st September 1947

Answer to Self-Examination Questions

Answer 1

The correct option is A.

General Insurance Company (GIC) is a reinsurance company.

Answer 2

The correct answer is C.

Oriental Life Insurance Company was the first company to conduct life insurance business in India. It was set up in Kolkata in 1818.

Answer 3

The correct answer is B

If 4 people die, the total loss will be Rs. 25000 * 4 = Rs. 1,00,000. The amount of Rs. 1,00,000 will be shared by 100 people. So each person will have to contribute Rs. 1,00,000 / 100 = Rs. 1000.

Answer 4

The correct answer is C.

ECGC is owned by the Government.

Answer 5

The correct answer is B.

The Life Insurance Corporation (LIC) was formed on 1st September 1956.

CHAPTER 3

THE BUSINESS OF INSURANCE

Management of risk by individuals

Ways to manage risk

The ways in which we manage risk depends upon the type of risk and the potential impact it can have on our life. Risks can affect our assets (such as our car or home) or us, as human beings (through accidents which lead to permanent disability or death). The risk has to be identified along with its features and specialities. Assessing the risk and finding out the chances of losses are also important.

There are ways to manage the risks described above. Before the risks can be managed they must be identified and analysed. Once this has been completed, it is possible to manage the risks. There are four ways in which risks can be managed. These are:

- Avoidance or prevention of risk
- Reduction of risk
- Retention of risk
- Transfer of risk to an insurance company

Ways to manage risks

- Identify/assess
    - Prevent/avoid
    - Reduce
    - Retain
    - Transfer

Avoidance or prevention: risks cannot be completely avoided or prevented as these are often caused by natural perils such as floods, earthquakes and landslides or by the actions of others. For example, car accidents are caused by mistakes / errors in judgment made by drivers, and buildings can collapse due to a person’s negligence.

Reduction: it is possible to reduce risk. Moreover, the reduction in risk can occur either before or after an incident has occurred. This can be

done in many ways. Examples of reducing a risk prior to an incident would be wearing seatbelts in cars, installing smoke detectors and sprinkler systems in buildings or regular scheduled maintenance of electrical wiring, to prevent fire. Reducing risk after an incident can involve having fire extinguishers available for use, having regular fire drills in buildings so people know the procedure to evacuate the building in the case of an emergency etc.

If risk is to be reduced, it is essential that plans and strategies are put in place before an incident occurs. Reducing risk is a continual process and efforts should be made to find ways to reduce risk.

Retention: if risk is retained the person exposed to the risk determines that they are able to bear the loss associated with the risk. They do not pass the risk on to an insurer. Before determining that a risk can be retained the seriousness of the risk must be assessed by considering:

- how often the risk may happen
- the extent of damage that may be caused to equipment, machinery or to the ability to continue with business
- any potential damage to the safety of people, their health and their jobs both within and outside the organisation
- the possibility of any damage to the environment

It may be feasible to retain risk if:

- the possibility of the risk occurring seems low;
- the cost of insurance is greater than the cost should the risk occur;
- there would be no adverse impact on profit should the risk occur; and
- a reserve fund is set up to meet risk should it occur.

There are advantages and disadvantages associated with retention of risk. These are explained in the table below

Advantages	**Disadvantages**
The cost may be less as administrative and commission costs of the insurer do not need to be paid for.	Any catastrophic incident may have an adverse effect on the financial position.
Costs are not affected by the adverse claims experience of others.	Multiple small claims can have the effect of one major or catastrophic claim
There are no disputes with insurers in the event of a claim	The money set aside to cover such losses is capital that cannot be used elsewhere.
There is a financial incentive to control loss	

Transfer: this is when a risk cannot be prevented or retained and is passed on to another person. Insurance is the process of transferring risk and an insurer finds other people to share the risk as an individual is unlikely to find other people who may want to share risk. Although insurers find other people to share the risk, not all risks are insurable and therefore need to be managed. The advantage of transferring the risk is that the risk is spread over many people who are exposed to a similar risk.

Question 1
The process of finding others who are exposed to a similar risk and are willing to share the risk is:

A. Reduction
B. Avoidance / prevention
C. Transfer
D. Retention

Management of risk by insurers

Insurance allows for risk to be shared. Insurance companies are intermediaries in the process, just like banks play the role of intermediaries between those who have money to spare and those who need it. Insurance spreads the losses of individuals over a group of individuals who are exposed to similar risk, thus making the process fair and equitable for all. The potential for any of the individuals to be compensated for a loss is similar across all individuals.
The purpose of insurance is to:

- bring people who are exposed to similar risks together (sharing the same risk)
- collect premium from the individuals
- pay compensation, called claims, in the event of loss

Insurance process:
To ensure stability and continuation of the insurance industry, an insurer must be a corporation or a company incorporated under the law, as corporations and companies, unlike proprietary or partnership firms and continue to exist even after the death of the owners. Insurance business is classified as either life insurance or general insurance. Life insurance, as the name suggests, covers risks related to the lives of humans whereas general insurance covers everything else.
General insurance is further divided into 3 categories:

- fire (covering risks related to fire);
- marine (covering all risks related to water transport and ships); and
- miscellaneous (covering all other risks such as motor, personal accident, liability etc).

In India, an insurer cannot conduct both life and general insurance business. A separate licence has to be obtained for transacting life and non-life insurance business. There are exceptions to this as allowed by IDRA regulations issued in **2005** regarding micro-insurance, which allows for insurers to issue life and general insurance for small sums (Rs. 50 to Rs. 50,000) through mutual tie-ups.

A general insurer may issue a life policy together with a general insurance policy but they must pass the life insurance premium on to a life insurer with whom they have a tie-up and the claim for the life policy must be settled by the life insurer.

Insurance premiums are based on the expectation of loss, and insurers use statistical principles such as the “law of large numbers” to determine the amount of the premiums. This law states that the larger the number of risks included in the pool, the greater is the chance of the assumption of probability of the risk coming true. Therefore, insurers must insure a large number of risks. The larger the spread of the business, the better would be the experience relating to expectations. The insurer uses his past experience to estimate what will happen in the future. However, due to climate change and changes in technology and industry the future will not be similar to the past. As such, insurance managers must make decisions to accept risks where there is no availability of past data. In these cases, insurance managers need to rely upon their intuition and data from past similar events / situations. It is important that the assumptions made when determining the premiums are regularly reviewed to ensure that the assumptions are still valid and the premium is appropriate.

Question 2

In the case of micro-insurance, up to what amount can an insurer issue a policy?

A. Rs.500,000
B. Rs.100,000
C. Rs.50,000
D. Rs.75,000

Fixing of premiums

Insurer revenue and expenses

Insurance companies' revenue comes from:

- ❖ premiums paid by the insured
- ❖ income from interest and dividends on investments that the insurance companies have made

Expenses for the insurance company include:

- ❖ payment of claims
- ❖ salaries, commission, rent and expenses associated with managing the business

The revenue is usually greater than the expenses in any year. This difference, however, is not treated as profit as the money is held as reserve to meet the costs associated with paying claims for policies which are still in force. The costs (liabilities) are calculated according to the principles relating to the valuation of liabilities under insurance policies. The funds to be held in reserve are determined after providing for the solvency margins as required by law. Any profit available for distribution as dividends to shareholders or as bonus to policyholders, is determined after these provisions have been made.

Revenues and Expenses of insurance companies

Managing funds

An insurer is effectively a trustee as it is managing a common fund on behalf of its policyholders and as such must ensure that it protects the interests of these policyholders. To this extent, an insurer must:

- ❖ not accept risk which is not of the same kind as faced by the people already in the group
- ❖ not pay claims for losses which are not accidental
- ❖ identify and refuse claims for losses which are exaggerated

Underwriting is the process used to determine entry into the group. Underwriting includes assessing the risk to determine the exposure of the group and determining the premium to be charged based on the risk.

Suppose an insurance company received Rs. 50,000 as premium revenue and Rs. 20,000 as investment income each year. This would give the company a total revenue of Rs.70,000. Its expenses are Rs.15,000 for salaries and business related expenses and Rs.40,000 to be kept in premium reserve for payment of claims.

The company would be left with Rs.15,000, which could be distributed as profit to be shared amongst shareholders, or as bonus paid to policyholders.

Question 3
What is the treatment to be given to the difference between revenue and expenses?

A It is included as profit
B It is paid to shareholders in the form of dividends
C It is held in reserve to cover claim costs
D It is returned to policyholders

Reinsurance and its importance

Fundamentals of Reinsurance

The transfer of risk from one insurance company to another is called reinsurance. Catastrophic events such as earthquakes or oil tankers spilling oil into the sea can generate claims that could place a considerable financial burden on the insurer. To ensure that they can fulfill their promise to pay claims, insurers transfer a part of their risk to another insurer. Should one of the above events happen, the primary insurer would pay a part of the claim and the reinsurer would pay the rest.

In India, all the insurers are to compulsorily cede 10% of their premium to the national reinsurer that is the General Insurance Corporation (Reinsurance) Insurers retain risk up to a certain limit (retention limit) and transfer the rest to the reinsurer. There are insurance companies that deal exclusively in reinsurance although reinsurance can be done with any insurer.

Reinsurance is not a simple business; it is complex and can be arranged in numerous ways. Some of which are:

- ❖ Reinsurance brokers act as intermediaries and find a reinsurer willing to accept the risk.
- ❖ Treaties between the insurance company and the reinsurer specify retention limits for various risks and agree to reinsure any amount above the retention limit on terms specified in the treaty.
- ❖ Treaties may specify that reinsurance would be a certain proportion of the risk underwritten by the insurance company.
- ❖ The reinsurer may or may not have the option to refuse particular risks.

- In some treaties, when the loss exceeds a certain limit the reinsurer gets involved.

Specific terms used in reinsurance

Ceding	Term used when the primary insurer passes risk on to a reinsurer. The reinsurer accepts the business. The primary insurer here is called “ceding company” and the company that takes on the risk is called a “reinsurer”.
Retrocession	A reinsurer reinsures with another reinsurer or insurance company. Such process of transfer is called “retrocession”.
Treaties	Agreements between the ceding company (primary insurer) and the reinsurer containing terms and conditions on which risks shall be reinsured. Such treaties are valid for a specific period and can be renewed on the same or different terms based on experience.
Facultative reinsurance	This is when the reinsurer has the right to decide whether they should accept the risk or not. In other words, the reinsurer negotiates with each risk, whether to take it on or not. This may happen in treaty cases also, where risk is not within the terms of the treaty.
Surplus reinsurance	Agreement requires reinsurance beyond the retention limit of the primary insurer. Quota share A proportion of all businesses to be reinsured.
Excess of loss	An arrangement wherein the reinsurer steps in only if there is a loss that exceeds the specified limit. Insurance companies may have several excess of loss treaties with second and third reinsures set at different limits that come into effect when the loss is in excess of the limit for the primary insurer and the first reinsurer. These are called “first”, “second” etc. excess of loss.
Excess of loss ratio	When net claims ratios of the insurer exceed specified limits in a financial year, excess of loss ratio becomes operational.
Pool arrangement	A number of insurers agree to pool all premiums received and claims are paid from that pool. Expenses and profits are shared as per agreed interests of the pool members.

Question 4
In reinsurance terms a treaty condition stating that the insurer's loss must exceed a certain limit for the reinsurer to get involved is called ________________.

A Excess of loss
B Quota share
C Ceding
D Pool arrangement

The role of insurance in economic development and social security

Insurance and economic development

Non-life insurance business grows parallel to economic growth. Economic growth depends on business and business depends on insurance. Without insurance the ability of a business to continue after a peril is reduced. For small businesses, having no insurance could stop them from operating. If there is no way for a business to recover from a loss, it cannot operate. This impacts the economic growth of the country.

Insurance plays an important role in economic development as the industry depends on insurers to manage their manufacturing and commercial risks. As in the above example, if insurance was not available to businesses and a fire destroyed their premises it would be likely that the business could no longer continue. Although insurance cannot remove the risk of fire or theft, the impact of these events is reduced as the compensation paid by the insurance company will allow the business to continue.

Insurance and Social Security

Life insurance and General Insurance Social Security schemes, prevents families from becoming a burden on the society. If the income earner in a family was to die the family may have no income in order to survive. With limited or no income the family would rely on the Government for subsidies and there would be no money to pay for the education of their children limiting future employment opportunities of the children. With life insurance, in such an event, families can continue to live in their home, provide education for children and look after their financial needs.

In India, the Government uses LIC and GIC and designs insurance programmes for promotion of its social welfare objectives. Insurers have an obligation by law to provide insurance benefits to low income earners of the weaker sections of the society and the unorganised sector. Life

insurance, pension products and annuities for people who live long make it possible for them to live comfortably without being a burden on the Government for allowances and medical costs. This reduces the Government's costs.

Question 5

Where would an insurance company find guidelines on investing funds?

A There are no guidelines

B IRDA Regulations

C Company guidelines

D The Insurance Act

Summary

- ❖ There are four ways in which risk can be managed. These are prevention / avoidance, reduction, retention or transfer.
- ❖ Insurance spreads the losses of individuals over a group of individuals who are exposed to similar risk, thereby making the process fair and equitable for all.
- ❖ The process of transferring risk from one insurance company to another is called reinsurance.
- ❖ General Insurance Corporation of India is the national reinsurer.
- ❖ The difference in an insurer's revenue and expenses is not treated as profit, it is held in reserve to cover claims costs. After maintaining a reserve, the balance can be distributed as profit to shareholders and bonus to policyholders.
- ❖ Insurance premiums are based on the expectation of loss and insurers use statistical principles such as 'law of large numbers' to determine these.
- ❖ General Insurance contributes to the continuation of trade by fulfilling the obligations at claim time which in turn can prevent businesses going broke.
- ❖ Underwriting is the process used to determine entry to the group.
- ❖ Underwriting includes assessing the risk to determine the exposure of the group and to determine the premium charged.

Answers to Test Yourself

Answer to TY 1

The correct option is C.

The process of finding others who are exposed to similar risk and willing to share the risk is called transfer.

Answer to TY 2
The correct option is C.
Under micro-insurance an insurer can issue a policy of upto Rs. 50,000.
Answer to TY 3
The correct option is C.
The difference between the revenue and expenses is held by the insurer in reserve in order to pay claims.
Answer to TY 4
The correct option is A.
Excess of loss describes a treaty condition stating that the insurer's loss must exceed a certain specified limit for the reinsurer to get involved.

Answer to TY 5
The correct option is D.
The Insurance Act provides strict guidelines on how funds can be invested.

Self-Examination Questions

Question 1
Insurance manages risk in which of the following ways?
A. Transfer
B. Retention
C. Reduction
D. Avoidance / prevention

Question 2
Which of the following entities was nominated as the national reinsurer?
A. LIC
B. Oriental Insurance
C. General Insurance Corporation of India
D. New India Assurance

Question 3
What are agreements between insurers and reinsurers known as?
A. Quota shares
B. Treaties
C. Excess of loss
D. Pool arrangements

Question 4
The purpose of insurance is to __________
A. Bring people who are exposed to similar risks together
B. Pay claims
C. Collect premium
D. All of the above

Question 5

Insurers protect the funds of the group by:

A. Not paying for losses which are not accidental

B. Making premiums excessive

C. Paying all claims

D. Paying exaggerated claims

Answers to Self-Examination Questions

Answer to SEQ 1

The correct option is A.

Insurance is the process of transfer of risk.

Answer to SEQ 2

The correct answer is C.

The General Insurance Corporation of India (GIC) is the national reinsurer.

Answer to SEQ 3

The correct answer is B.

The agreements between insurers and reinsurers are known as treaties.

Answer to SEQ 4

The correct answer is D.

The purpose of insurance is to bring people together who are exposed to similar risk, collect premiums and pay claims.

Answer to SEQ 5

The correct answer is A.

The insurer protects the funds of the group by not paying claims for losses which are not accidental.

CHAPTER 4

THE INSURANCE MARKET

This chapter creates awareness of the various constituents of the insurance market and to learn about various insurance companies and intermediaries operating in the insurance market, and the importance of specialists in the insurance industry.

Indian insurance market

Constituents of the insurance market

- Companies
  - Life Insurance
  - Non-life Insurance
  - Reinsurance
- Intermedieries
  - Individual agents
  - Corporate agents
  - Banks
  - Brokers
- Specialists
  - Surveyers
  - Medical examiners
- Regulatory bodies
  - IRDA
  - Insurance councils
  - Ombudsmen
- Educational Institutions

Insurers operating in the Indian market

Prior to 1999, during the nationalisation era, Life Insurance Corporation (LIC) of India, General Insurance Corporation (GIC) of India and its four subsidiaries had the exclusive privilege of transacting insurance business in India. After 1999, post liberalisation reforms were made by the then Finance Minister Dr. Manmohan Singh under the leadership of Prime Minister P. V. NarasimhaRao.

A lot of sectors were opened up for participation from private sectors and foreigners. Insurance sector was also one of them. The Insurance Act,

1938 was amended in 1999 to provide for registration of private insurers to transact insurance business in India. The Insurance Regulatory and Development Authority (IRDA) was set up to regulate insurance business. The IRDA allowed private insurance companies to register under the new dispensation. Foreign Direct Investment (FDI) of up to 26% was allowed, paving the way for domestic private companies to bring in foreign companies as partners through joint ventures. The proposal to hike FDI in insurance to 49% from the current 26% is pending for approval (December 2010).

Liberalisation of the insurance sector ended the exclusive privilege of LIC, GIC and its four subsidiaries to transact insurance business in India, and ushered in competition and deeper penetration of the insurance market. As on June 2011, there are 23 life insurance companies and 24 general insurance companies transacting insurance business in India.

- **There are 23 life insurance companies operating in India**

- **There are 24 non-life insurance companies operating in India**

Specialised insurance companies

- The **General Insurance Corporation (GIC) of India** is the national reinsurer. All insurers are obliged to reinsure a certain portion of their Indian business with the GIC.
- Life Insurance Corporation of India and General Insurance Corporation of India are owned by the Central Government and are established by Acts of Parliament. All other insurance companies are incorporated under the Indian Companies Act.
- Export Credit and Guarantee Corporation of India, United India Insurance Company Limited, the Oriental Insurance Company Limited, the New India Assurance Company Limited and the National Insurance Company Limited and Agriculture Insurance Company Limited are owned by the Central Government and the other insurers are private companies.
- The **Export Credit and Guarantee Insurance Company** Limited is a specialised insurer for risks related to export credit.
- **Agriculture Insurance Company Limited** is a specialised insurer for risks related to agriculture insurance.
- **Apollo DKV and Star Health are specialised insurers for risks related to health of individuals**.

- **Postal Life Insurance** is run by the Government of India. It was excluded from the Act of nationalisation in 1956 and continues to remain outside the purview of the IRDA and the Insurance Act. It is a department of the Central Government transacting only life insurance business for specified classes of people.

Role of intermediaries

Agents

Insurance is largely sold through agents, who are appointed by insurance companies.

- **Licencing authority**: agents have to obtain licences from the IRDA for selling insurance. They have to obtain a separate licence for life and for nonlife insurance and can work with only one insurer in each class.
- **Eligibility criteria**: the aspirant should have passed 12th standard if staying in a place with a population of 5000 or more and should have passed 10th standard if staying in any other place. The candidate has to undergo a prescribed training course and pass a prescribed examination as per IRDA guidelines.
- **License validity**: the licence is valid for three years and has to be renewed as per the prescribed terms.
- **Individuals as well as corporate bodies** like banks, companies, firms, cooperative societies etc. are allowed to become agents.
- **Corporate agents**: in the case of corporate bodies, licences are issued to designated individuals who are required to undergo prescribed training and pass the examination. Only those individuals fulfilling the above criteria will be allowed to transact insurance business on behalf of the corporate body.
- **Remuneration**: agents are remunerated by way of commissions, which are regulated by IRDA. Most of the products have a fixed commission structure which is a certain percentage of the premium paid by the insured. Initially the commission for life insurance business is high, but keeps getting lower in the subsequent years. For general insurance business, the contract is usually for a period of twelve months and the commission rate varies with the kind of business.
- **Duty of the agent**: the agent should sell insurance policies as per the needs of the prospective customers and look after their interests till the claims are settled. For some agents, insurance business is a

full time activity while for others; it is a part-time activity that they pursue in addition to other activities.

Brokers

DEFINITION: A insurance broker is an individual, a company, a society or a firm, wholly engaged in sourcing insurance business for various insurance companies.

- **Independence**: a broker is not appointed by any insurance company. They are independent professionals and have to obtain a licence from the IRDA after going through a prescribed training course and passing a prescribed examination.
- **Mode of business**: the licence may authorise the broker to place direct business with any insurer/insurers, or arrange reinsurance or both.
- **Capital requirement**: a broker needs to invest a minimum prescribed capital varying from Rs. 50 lakhs for a direct broker (placing business with primary insurers) to Rs. 250 lakhs for reinsurance or a composite broker. A composite broker can do business with primary insurers as well as reinsurers. Brokers are allowed to work for life and general insurance businesses at the same time.
- **Remuneration**: brokers are remunerated by way of brokerage by the insurers or the reinsurers, as the case may be. The brokerage payable to brokers is regulated by the IRDA.
- Brokers generally handle big businesses and advice customers on the best insurance arrangements. They may also negotiate with insurers to obtain the best insurance terms for their clients.

Role of specialists

Surveyor

A surveyor is an individual whose job is to assess the loss. He is also known as a 'loss assessor'. A surveyor is a part of the general insurance business. The justification for loss assessment arises because of the principle of indemnity.

Surveyors have no role to play in life insurance business as the principle of indemnity does not apply to life insurance.

- **Technical Expertise**: non-life insurance covers a variety of risks. Many of them, due to their complicated nature, can be apprised only by technically competent persons. Insurers may not have technically competent persons in their offices for this. So, they have, in their

panel, persons qualified in various disciplines and technologies, whose services can be called upon to assess the loss and recommend the extent of claim payable in a particular case. These panellists will be specialists from the fields of finance, automobiles, shipping, engineering, oil drilling, metallurgy and other fields that insurance companies deal with.

- **Survey report**: the Insurance Act requires that for all claims exceeding Rs. 20,000 in value, a report be obtained from a licensed surveyor before admitting or settling a claim under a non-life insurance policy. Insurers prefer to obtain survey reports even for claims of lesser value. It is expected that the presence of an independent professional as surveyor would give some confidence to the claimant that the assessment is fair and not biased towards the insurer.
- **Licence eligibility**: to qualify as an insurance surveyor or loss assessor an individual has to pass an IRDA prescribed examination and undergo practical training. The licence is valid for five years.
- **Licencecategorisation**: surveyors are categorised as A, B or C. The fees payable for the licence varies according to the category and also whether the surveyor is an individual or a company / firm.
- **Committee**: a committee consisting of representatives of the IRDA, surveyors, insurers and policyholders determine the appropriate qualifications and trainings necessary for grant of licences and for categorisation.

EXAMPLE:

Karan has a severe accident while driving his car. The car is badly damaged. Karan makes a claim of Rs. 50,000 with the insurance company for damages to his car. The insurance company will ask one of its empanelled surveyors to inspect the car and assess the loss. The surveyor will make a 'survey report' and recommend the extent of claim payable in this particular case. Based on the survey report submitted by the surveyor the insurance company will take a call on the amount to be paid as claim to Karan for damages to his car.

In this way the insurance companies can decide the appropriate amount to be paid as claims using the services of surveyors.

Medical Examiners

Intermediaries: medical examiners are important intermediaries in insurance. In life insurance their help is sought to examine and certify the health and insurability of the proposer.

- **Sum assured and age criteria**: most life insurance companies require a person to undergo medical examination when the sum assured demanded is above a certain amount (the higher the amount the higher the risk to the insurance company) or if the age of the proposer is higher than a certain age bracket. In the case of both the above criteria, if a prospect is below the set level then the insurer may exempt the medical examination requirement.
- **Underwriting referee**: doctors who have specialised in the relationship between various physical conditions and mortality may be involved in underwriting as medical referees.
- **Doubtful cases**: cases of doubt are referred to medical examiners for an opinion. In early death claim cases where the insurer is doubtful, the help of medical examiners is sought to decide whether there is any room for suspicion like if there has been suppression of material facts when the policy was taken.
- **Cattle insurance**: the services of veterinary doctors are used in cattle insurance.
- **Health insurance**: while considering claims under health insurance policies, the advice of doctors may be sought to check if the claims being made are reasonable or not.

EXAMPLE:

Shyam wants to take health insurance for his parents who are in their late 50s. The insurance company has fixed premiums according to age slabs. As per the age slab, Shyam is required to pay a premium of Rs. 15,000 for a family floater policy for his parents for a cover of Rs. 3,00,000. But as per the cover amount asked for and the age of the person to be covered, the company requires the person to undergo a medical check-up.

The medical examiner conducts the required tests and submits the report to the insurance company. During the medical test it is discovered that Shyam's dad is suffering from diabetes. Now the insurance company has two options:

a) it can reject the proposal reasoning the case is risky and may result in adverse selection

b) it may ask Shyam to pay extra premium (loading) to compensate for the extra risk undertaken by the company

In this manner the services of the medical examiners help insurance companies to decide whether the risk should be accepted or not and if it is accepted then what should be the appropriate premium charged to cover the risk.

Third Party Administrators (TPA)

A TPA is a specialised health service provider rendering various services related to health insurance. These services include networking with hospitals, claim processing and settlement. Both the insured as well as the insurer benefit from the services of the TPA. Insured persons benefit with cashless hospitalization and cashless settlement with the help of TPAs. Insurers benefit by reduction in their costs as TPAs are supposed to negotiate with hospitals for reasonable treatment rates.

- **Intermediaries**: TPAs are operating in the insurance market as intermediaries since 2000. Insurers offering cashless treatment facility use the hospital network of TPAs rather than building their own network from scratch. This benefits the insured person as he doesn't need to pay cash for treatment in network hospitals. The hospital bill is directly settled by the insurance company.
- **Eligibility criteria**: for a TPA licence from IRDA, the applicant company:
  - should have a share capital of at least Rs. 1 crore
  - at least one of the directors must be a qualified medical practitioner
  - one of its officers has to undergo prescribed training and pass a prescribed examination
- **Remuneration**: TPAs get paid by the insurance companies.

Role of the regulator and other bodies

Regulator – Insurance Regulatory and Development Authority (IRDA)

- Establishment
- Regulation of Insurance
- Licensing authority
- Industry watchdog
- Guidelines & directions
- Corporate body

Insurance Councils

- Insurance Councils are constituted under the Insurance Act.
- All insurers transacting life insurance business are members of the Life Insurance Council and all insurers transacting general insurance business are members of the General Insurance Council.
- Both these councils are envisaged as self-regulatory mechanisms for the insurance industry.

Tariff Advisory Committee

- Objectives: Tariff Advisory Committee (TAC) had been constituted under the Insurance Act with the objective of controlling and regulating the rates, advantages, terms and conditions that may be offered by general insurers. The committee ensured that there is no overcharging of rates.
- Fire and Miscellaneous cover: the TAC had fixed rates applicable to a wide range of fire and miscellaneous insurance covers.
- Tariff schedule: the tariff provided a schedule for minimum rates for different classes of risk and extra premiums for special hazards.
- Detariffication: since January 2007, the TAC's role has been modified. Charging of premiums was de-regulated from administered pricing mechanism. The first phase of detariffication was introduced in the form of 'freeing of rates from the tariff shackles' wherein the premiums to be charged shifted from tariff based to risk based. The insurance companies are free to decide the premium rates subject to the rates being filed with IRDA. The second phase still in the nascent stage seeks to give freedom of coverages, terms and conditions under the policies.
- Change in responsibility: since detariffication, TAC does not lay down the rates. The TAC's responsibility now is mainly to collect statistics pertaining to the industry.
- Policy wordings: the TAC has standardised the wordings for various policies and clauses in order to eliminate ambiguity and improve precision.
- File and use guidelines: as per the file and use guidelines of IRDA, all insurers are required to file their products with IRDA and use them only after a 'go ahead' by the competent authority. For this, each company should have an underwriting policy based on which, the products will be designed and sold.

[As per recommendations of the Insurance Amendment Bill 2008, as TAC does not have an active role to play after detariffing, it has to be wound up.]

Insurance Ombudsman

- **Establishment**: the institution of Insurance Ombudsman was created by the Government of India vide its notification dated 11th November, 1998.

- **Objective**: the ombudsman was created to handle complaints of aggrieved insured persons. The function of the ombudsman is to resolve complaints in respect of disputes between policyholders and insurers in a cost effective and impartial manner. The ombudsman has to ensure quick disposal of grievances of insured customers and to mitigate their problems involved in redressal of grievances. This institution is of great importance and relevance for the protection of interests of policyholders and also in building their confidence in the system. The institution has helped to generate and sustain faith and confidence amongst the consumers and insurers.
- **Appointment**: the governing body of insurance council issues orders for appointment of the Insurance Ombudsman. The recommendations for appointment are made by a committee comprising the IRDA Chairman, LIC Chairman, GIC Chairman and a representative of the Central Government.
- **Tenure**: an Insurance Ombudsman is appointed for a term of three years or till the incumbent attains the age of sixty five years, whichever is earlier. Reappointment is not permitted.
- **Territorial jurisdiction**: the governing body has appointed twelve ombudsmen across the country and allotted them different geographical areas as their areas of jurisdiction. The offices of
- **Nature of complaint**: the nature of complaints made to the Ombudsman may relate to the following situations as covered in the below diagram.

  Nature of complaints to Ombudsman:
  - Any partial or total repudiation of claims by the insurance comapanies
  - Any dispute with regard to premium paid or payable in terms of the policy
  - Any dispute on the legal construction of the policy wordings in case such dispute relates to claims
  - Delay in settlement of claims
  - In issuence of any insurance document to customes after receipt of premium

- **Powers / rights of Ombudsman**: the Ombudsman acts as counsel and mediator in matters within its terms of reference. It is not a judicial authority. It has no right to summon witnesses. It has to make its decision on the basis of documents submitted to it. The

complainant and the insurer are allowed to make personal submissions. But lawyers are not permitted to argue the case.

- **Manner of lodging complaint**: complaints to the ombudsman are made only in the following conditions:
  a) The complainant should have made a representation to the insurer named in the complaint and the insurer either should have rejected the complaint or the complainant should not have received any reply within a period of one month after the concerned insurer has received his complaint or he is not satisfied with the reply of the insurer.
  b) The complaint has to be made within one year after the insurer had rejected the representation or replied unsatisfactorily.
  c) The same complaint on the subject should not be pending before any court, consumer forum or arbitrator.
- **Award / recommendation of the Ombudsman**: the Ombudsman shall make a recommendation within one month from the date of receipt of complaint. The complainant can accept or reject the recommendation.
  a) If the complainant accepts the recommendation, the insurance company has to comply with the order within 15 days and inform the Ombudsman accordingly.
  b) If the complainant does not accept the recommendation, the Ombudsman shall pass an award in writing. The award will state the amount awarded which shall not be in excess of what is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril or for an amount not exceeding Rs. 20 lakhs, whichever is lower. The award has to be passed within three months. The complainant has to intimate his acceptance of the award within one month by letter of acceptance to the insurance company and the insurer has to comply within 15 days and inform the Ombudsman. If the complainant does not intimate acceptance, the award cannot be implemented.
- Jurisdiction of consumer forums: the Ombudsman does not, in any manner, restrict or mitigate the jurisdiction of the consumer forums set up under the Consumer Protection Act, 1986.

IRDA grievance redressal mechanism

Insurance Regulatory and Development Authority (IRDA) has established Consumer Affairs Department to oversee compliance of

insurers and protection of interests of policyholders and also to empower consumers by educating them on grievance redressal mechanisms. The department facilitates an environmentwhere the insured avails himself / herself of proper procedures and redressal mechanisms put in place by insurers and the regulations to address complaints and grievances of policyholders efficiently and with speed.

Under the grievance redressal mechanism, the insured can approach the IRDA through phone or email against the insurance company for any grievance redressal. IRDA has started a call centre for this purpose. Customers can dial 155255, which is a toll-free number and register their complaint. To register the complaint through email the customer can address the email to complaints@irda.gov.in. This is the latest of the many initiatives that IRDA has taken to protect the interests of the policyholders.

Educational Institutions

Insurance is a specialised subject which is not taught in normal educational institutions. Persons desirous of studying insurance subjects have to take courses offered by institutions from the U.K. or the U.S.A.

a. Insurance Institute of India (III)

- ❖ In 1955, the Federation of Insurance Institutes was set up in Mumbai to cater to the needs of students in India. Later the name of the institute was changed to Insurance Institute of India.
- ❖ It conducts examinations and offers Licentiate Certificate, Associateship and Fellowship diplomas.
- ❖ Over the last 50 years, the Insurance Institute of India has gained recognition as a premier institute for education in this part of the world and conducts examinations in 19 centres in Asia, Africa and Fiji.
- ❖ Credits are given by recognised institutes in the U.K. and the U.S.A. for those who pass the Institute's examinations.
- ❖ The College of Insurance in Mumbai, established in 1966 as the training wing of the Insurance Institute of India and the National Insurance Academy in Pune, established in 1982, offer short duration courses on a variety of insurance related subjects.
- ❖ The National Insurance Academy also offers a two year post graduate diploma course in insurance.
- ❖ Both these institutions attract participants from Asian and African countries for their programmes.

b. Other Institutes

Institute of Actuaries of India	Formerly known as the Actuarial Society of India, this institute was established in 1944. It began conducting examinations for actuarial sciences in 1989. It offers diplomas at the Fellowship Level.
Indian Institute of Insurance and Risk Management	It provides training and services in risk management.
Indian Institute of Surveyors and Adjusters	It provides training and services in surveys.
Other Institutes	Since 2000, several universities and other educational institutions have begun to offer insurance education at graduate and post graduate levels.

Question 1

How much is the minimum prescribed capital for a composite broker?

A. Rs. 50 lakhs

B. Rs.100 lakhs

C. Rs. 200 lakhs

D. Rs. 250 lakhs

Summary

- The insurance market can be broadly divided into five categories: insurance companies, intermediaries, specialists, regulatory bodies and educational institutions.
- The insurance companies transacting insurance business can be broadly classified into life insurance companies, non-life insurance companies and reinsurance companies.
- As on November 2010 there are 23 life insurance and 24 non-life insurance companies operating in India. GIC is the sole reinsurance company in India.
- Agents and brokers are intermediaries and procure insurance business on behalf of the insurers.
- A surveyor, also known as loss assessor, is an individual whose job is to assess the loss in general insurance business.
- Medical examiners are important intermediaries whose help is sought in life insurance and health insurance to examine and certify the health and insurability of the proposer.

- A TPA is specialised health insurance service provider rendering various services like networking with hospitals, claim processing and settlement.
- IRDA is the regulatory authority to administer the Insurance Act and to regulate, promote and ensure orderly growth of the insurance industry.
- The insurance Ombudsman is appointed to handle complaints of aggrieved insured persons and to ensure quick disposal of grievances and mitigate their problems involved in redressal of those grievances. This institution is of great importance and relevance for the protection of interests of policyholders and also in building their confidence in the system. Currently there are Ombudsmen offices in 12 cities across India.
- Under the IRDA grievance redressal mechanism, customers can dial 155255, which is a toll-free number or email complaints@irda.gov.in and register their complaint against insurance companies.
- Institutes like Insurance Institute of India, Institute of Actuaries of India, Indian Institute of Surveyors and Adjusters and many other institutes provide insurance training and services as Associateship and Fellowship diplomas and various other programmes.

Answers to Test Yourself

Answer to TY 1

The correct option is D.

The minimum prescribed capital for a composite broker is Rs 250 lakhs.

Self-Examination Questions

Question 1

In which year was the IRDA was set up?

A. 1998　　C. 2000

B. 1999　　D. 2001

Question 2

How much is the Foreign Direct Investment (FDI) allowed in insurance in India?

A. 26%　　C. 51%

B. 49%　　D. 74%

Question 3
As per the Insurance Act, for non-life insurance, how much is the claim value exceeding which a report has to be obtained from a licenced surveyor?
A Rs. 10,000
B Rs. 15000
C Rs. 20,000
D The Insurance Act does not specify any amount for which a report has to be obtained from a licenced surveyor.

Question 4
In the case of individual agents, for how many years is the licence issued by IRDA valid?
A For lifetime
B 1 year
C 2 years
D 3 years

Question 5
How much is the minimum share capital requirement for a TPA?
A 1 crore
B 10 crores
C 50 lakhs to 250 lakhs
D There is no minimum capital requirement

Answer to Self-Examination Questions

Answer to SEQ 1
The correct option is B.
The IRDA was set up in 1999 under an Act of Parliament.
Answer to SEQ 2
The correct answer is A.
Foreign Direct Investment (FDI) of up to 26% is allowed in insurance in India.
Answer to SEQ 3
The correct answer is C.
As per the Insurance Act, in the case of non-life insurance, for claims value exceeding Rs. 20,000 a report has to be obtained from a licenced surveyor.
Answer to SEQ 4
The correct answer is D.
For individual agents, the licence issued by IRDA is valid for 3 years.
Answer to SEQ 5
The correct answer is A.
The minimum share capital requirement for a TPA is 1 crore.

CHAPTER 5

INSURANCE CUSTOMERS

This chapter aims to an understanding of insurance customers, their importance, what satisfies them and how they behave differently during the course of a policy, right from the stage of purchase of insurance to making a claim.

Who is an insured

Without the insured there will, of course, be no insurance. We have seen that the insured has been relatively easily identifiable in the past – perhaps a merchant who wants marine insurance or a guild member who wants his family to be looked after in the event of death.

Categories of Insured

- Retail individual
- Retail- SME
- Corporate

a) **Retail: Individual / Personal**

Here we are talking of the individuals in their personal capacity. The major products bought by individuals include:

- **Personal Accident, Motor**: Third Party Cover is a compulsory insurance in most countries
- **Health**: This will vary from hospitalisation treatment costs to full medical reimbursement
- **Building and Contents**: not so common in India yet, compared to other parts of the world, but fast catching up

In the past, these have been purchased either directly from the insurer or via the agency network.

b) **Retail: Small and Medium Enterprises (SME)**

In many ways, this is similar to the segment mentioned above with major share of sales now being via the web. Much of it is seen as a commoditized market – frequently via a Packaged Product, where risks can be grouped into relatively simple underwriting sectors such as:

- small shops
- offices
- restaurants and cafes
- hotels

Many insurers are also expanding this into small manufacturing sectors but excluding obvious heavy risks such as woodworking, fireworks, risks with international links etc. Underwriting is simplified and terms and conditions are common across most covers.

c) **Corporate**

The third general sector is the corporate market (ex SMEs). This is almost exclusively the province of the professional insurance brokers in major markets such as US, Europe, Australia, etc. Over 90% of the corporate market is in the broker province.

It can be sub-divided on the basis of sector (for example specialisation in sectors like energy, finance, leisure markets, etc.) or size (for example, mid-size companies, companies having national footprint, MNCs etc.) Here the classes are big enough to require and warrant individual underwriting and pricing.

Different types of customers

A customer is a person who buys goods or services that a business has to offer. Customers are usually people who are not part of the business. In order to be successful, a business must produce goods or services that meet the needs of the customers, keeping in mind their interests and concerns.

Customer differences

Not all customers are outsiders. The term ‘internal customer’ is one which is commonly used in management. This expression refers to the interrelationship of the departments, i.e. the work output of one department being an input for another department in the same organisation. Although there is no purchase of goods or service, the department providing the output needs to keep in mind the interests and concerns of its internal customer.

How insurance customers are different

When customers make purchases, especially when purchasing tangible goods, there is, in most cases an immediate sense of gratification or satisfaction from that purchase.

Even in the case of purchases of services, such as holiday bookings, there is the same sense of pleasure from the purchase. The purchasing of insurance is very different to this, as it does not give the customer any immediate sense of pleasure; they receive nothing tangible from the purchase. In most cases, the customer needs to wait for some time, before the benefit of the insurance purchase can be experienced. During this time, customers may doubt the wisdom of their insurance purchase. The benefits of insurance often come in a period ofdistress for a customer and they may wish that the benefit they receive from insurance may not be necessary. The wait for the benefit from life insurance may be very long, and the person who buys the policy may not be the one who will benefit from it.

The purchase of insurance is based on the likelihood of tragedy, and not on expectation of immediate pleasure. Because of this, the customer's perception is that they need to forego a current need in order to meet a need that may arise in the distant future. The customer has to visualise the possibility of a tragedy before they seek insurance. There is no current discomfort for the insurance customer; it is imaginary at the time of purchase, and it is the insurance salesperson's job to create those unpleasant images for the customer. This makes the insurance salesperson's job more difficult than other sales people as they have to create these unpleasant images and anxiety in the minds of the customer before making a sale. This is one reason why the attrition rate among insurance agents is high.

For general insurance, there is necessity in some cases to buy insurance.

Necessity to buy general insurance

- ❖ in the case of motor insurance, the law requires it
- ❖ lenders, such as banks require insurance of mortgaged goods as additional security
- ❖ trade practices- insurance is a condition in commercial contracts.

Necessity to buy life insurance: In the case of life insurance, the customer may not see the necessity of insurance. There is always a

tendency to ignore the need, as customers do not like to think that they will die in the foreseeable future and as such defer the decision. They are more focussed on their immediate needs, even if they are not essential, over the needs of the future. There may also be a tendency to leave things to fate.

Question 1

A customer is a person who ___________

A. Refuses to purchase goods or services

B. Buys goods or services a business has to offer

C. Produces goods or service for sale

D. Receives monetary benefits from the sale of goods

Customer mindsets and customer satisfaction

The changing mindsets of customers

The mindset of a customer differs during the course of the policy. The customer's mindset when they are taking the policy can be very different from their mindset at the time of a claim.

In the case of life insurance, the customer who buys the policy may not be the same customer who is making a claim on the policy. The real value of life insurance is experienced at the time of claim. There are three types of customers in life insurance and each one has a different mindset:

a) the person who buys the policy: their mindset at the time of purchase may be one of reluctance to set aside money which they could spend on other things that would provide more immediate enjoyment.
b) the person collecting the maturity proceeds: they will be happy that they have survived and also may regret that they did not put their money to better use.
c) the person who receives the death claim: this person while dealing with the death of a loved one will also be feeling relieved from anxiety, knowing they are receiving money (perhaps wishing it was more) and also will be grateful for the help received.

The person benefiting from a death claim is a distressed person, their future is uncertain without the insured person and they are unsure of when the claim will be settled. Hence, the greatest endorsement for life

insurance is the smile on the face of a widow while receiving a claim cheque at a time when people are harassing her for payment of what is owed to them.

The mindset of general insurance customers is not that different to life insurance customers. In general insurance, the claimant is likely to be the same person who bought the insurance cover. The mindsets would be different at the two times.

These are:

- the person buying insurance: their mindset would be of reluctance and committing themselves to the minimum amount of cover. They may be patronising and self-confident, as at this time they do not see the need for insurance.
- the person at claim time: The client experiences some relief that he has insured his subject matter. Their mindset would be to get the maximum amount possible from the insurer.

What satisfies customers?

Customers are happy when:

- they are recognized and respected
- they or their feelings and views are not ignored
- they do not feel like they are being taken advantage of
- they feel cared for and helped
- they are being empathised with

The role of intermediaries is to keep the customers satisfied. Agents and brokers also are responsible to make sure that the customer is satisfied, when policies are taken. They should do so while the policies are in force, not just when a claim arises. These Servicing activities make sure that the customer is not attracted to another insurance company. Servicing activities are more important in life insurance due to the amount of time the policy runs for. With other people giving their opinions, it is possible for the policyholder to feel conflicted about his decision. **Servicing activities help to reduce this inner conflict of the policyholder.** It is very important to maintain the brand image of the company to prevent this kind of turnover.

Surveyors and TPAs should behave as they are dealing with claimants who are distressed and anxious. Anxious people do not think logically,

they are moved by emotions. People who work in insurance offices are also not likely to be customer oriented and may not understand the importance of being empathetic.

Due to the very nature of insurance business, customer service and customer orientation are more important here than in other businesses.

Question 2

Maintaining customer satisfaction while policies are in force is called _____________.

A. Servicing activities

B. Customer orientation

C. Customer satisfaction

D. Customer identification

The importance of ethical behaviour

Being ethical in business is about doing the right thing, such as not lying or stealing, but being honest. A lot of attention is focussed on ethics in today's business world as there have been numerous reports of unethical behaviour and practices in companies. Bank funds being misused by the management; officials gaining personal benefits by improper use of their authority are a few examples of these. In today's society, people who are trusted by the community to perform responsible and authoritative tasks are seen to have betrayed trust.

There has been increased discussion about accountability and corporate governance, which together are called Ethics in Business. The Right to Information Act, 2005 and the development of Public Interest Litigation (PIL) have assumed considerable importance as ways of achieving better accountability and governance. The foundation of good governance is ethical behaviour. When people perform their duties conscientiously and sincerely, the result is good governance. Unethical behaviour shows little concern for others and a high concern for self. When people try to serve their own self-interest using their position, then their behaviour is unethical. It is not unethical to look after your own interests but it is wrong to do so at the expense of others or using your official authority to gain such interests.

The business of insurance is based on trust. Policyholders entrust their savings to an insurer, trusting it to look after these funds and to look after their interests and those of their dependants in later years. In general insurance, policyholders trust that in the event of a claim, the insurer will keep up their promise of compensation. Propriety and ethical issues are

important in insurance. These issues relate to trust and a breach of trust amounts to cheating. Things go wrong when incorrect information is given to potential policyholders in an attempt to get them to buy insurance. This is also known as mis-selling.

The code of ethics spelt out by the IRDA in the various regulations is directed towards ethical behaviour. It is important to know every clause in the code of conduct to ensure there is no violation of the code. If the insurer and their representatives always kept the interests of the potential policyholder in mind, compliance would be automatic. Unethical behaviour happens when the benefits of self are considered more important than the benefits to the policyholder and when the officers of insurers become more concerned with targets of the business instead of needs of the policyholders.

Some characteristics of good ethical behaviour include:

- ❖ placing the best interests of the customer above one's own direct or indirect benefits
- ❖ keeping in the strictest confidence all business and personal information regarding a customer's affairs
- ❖ making full and adequate disclosure of all facts to allow customers to make informed decisions

There is a possibility for ethics to be compromised in the following situations:

- ❖ having to choose between two plans, one of which has considerably less premium or commission than the other
- ❖ temptation to recommend discontinuing an existing policy and taking a new one
- ❖ becoming aware of circumstances that, if known to the insurer, could adversely affect the interests of the customer or the beneficiaries of a claim.

To mitigate the above, IRDA has prescribed a free look period of 15 days for life, general insurance and health policies. As per this stipulation, if a policy holder is not satisfied with the product, he / she can opt to return the same to the insurance company within a period of 15 days from the date of receipt of the document. A refund of premium will be made to the insured after deduction of mortality charges for the risk cover during the freelook period, medical examination expenses (if incurred by the insurer) and stamp duty charges.

Question 3

What are accountability and corporate governance together called?

A Ethics in Business
B Freedom of Information
C Public Interest Litigation
D Good governance

Summary

- ❖ A customer is a person who buys goods or services that a business has to offer.
- ❖ The term internal customer is used to describe the work output of one department being an input for the work of another department in the same organisation and the interrelationship of departments.
- ❖ The mindset of a customer will differ during the course of the policy.
- ❖ The code of ethics spelt out by the IRDA in various regulations is directed towards ethical behaviour.
- ❖ Unethical behaviour is when the benefits of self are considered more important than the benefits to the policyholder.
- ❖ Being ethical in business is about doing the right thing, such as not lying or stealing, but being honest.

Answers to Test Yourself

Answer to TY 1

The correct option is B.

A customer is a person who buys goods or services a business has to offer.

Answer to TY 2

The correct option is A.

Maintaining customer satisfaction while the policy is in force is called servicing activities.

Answer to TY 3

The correct option is A.

Accountability and corporate governance together are referred to as Ethics in Business.

Self-Examination Questions

Question 1

What is the term used to describe the work output of one department being an input for the work of another department in the same organisation and the interrelationship of the departments?

A. External customer
B. Peers

C. Policyholder
D. Internal customer

Question 2
In which regulations are the code of ethics directed towards ethical behavior spelt out?
A. Government
B. IRDA
C. Insurance Advisory Committee
D. Insurance Institute of India

Question 3
What is the foundation of good governance?
A. Ethical behaviour
B. Having little concern for others
C. Being honest
D. A high concern for self

Question 4
What must businesses keep in mind about their customers in order to be successful?
A. How much they can pay
B. How they will use the goods or services
C. Their needs, interests and concerns
D. Whether they can recommend them to other people

Question 5
What makes customers happy?
A. When they feel cared for
B. When someone tells them what they want
C. When their views and feelings are ignored
D. Not attending them

Answers to Self-Examination Questions

Answer 1
The correct option is D.
The term internal customer is used to describe the work output of one department being an input for the work of another department in the same organisation and the interrelationship of the departments.

Answer 2
The correct answer is B.

The code of ethics spelt out in the IRDA regulations are directed towards ethical behaviour.

Answer 3

The correct answer is A.

The foundation of good governance is ethical behaviour.

Answer 4

The correct answer is C.

Businesses must keep in mind their customers' needs, interests and concerns in order to be successful.

Answer 5

The correct answer is A.

Customers are satisfied when they feel cared for.

GLOSSARY (Chapter 1 - 5)

- Tangible assets
- Financial risks
- Catastrophic
- Important
- Unimportant risks
- Dynamic risk
- Fundamental risks
- Physical hazard
- Moral Hazard
- Law of large numbers
- Quota share
- Fiduciary
- Pool
- Obligatory
- Utmost Good Faith
- Let the buyer beware
- Voidable
- Void
- Warranty
- Insurable interest
- Speculative risk
- Novation
- Proximate Cause
- Death Cover
- Vesting date
- Cashless
- Professional indemnity
- Term Assurance
- Pure Endowment
- Whole Life Policy
- Immediate Annuities
- Deferred Annuities
- Master policy
- Hull insurance
- Agreed value policy
- Full value insurance
- First Loss
- Institute Cargo clauses
- Average clause
- General Average
- Particular average
- Arbitration & Conciliation Act, 1996
- Indemnity
- Endorsement
- Material Fact
- Assignee
- Assignor
- Gross direct
- Ceded, Accepted
- Combined Ratio
- Solvency margins
- Ex-gratia
- Convertible
- Lapsed
- Paid up
- Revival
- Deferred
- Open Policy
- Solatium Fund

PRACTICE QUESTION SET - I

1. Which of the following statements is true?
1. Insurance is a method of sharing the losses of a 'few' by the 'many'
2. Insurance is a method of transferring the risk of an individual to a group of individuals

a) Only Statement 1
b) Only Statement 2
c) Both Statement
d) Neither of the Statements

2. In the insurance context 'risk' means

a) Possibility of loss or damage
b) Loss producing event
c) Property covertly covered by insurance
d) All the above

3. To which of the following does the Employees state insurance Act, 1948 apply.

a) Employees of Central Government
b) Employees of State Government
c) Employees of Public Sector manufacturing companies
d) Industrial employees as notified by the Government

4. Which of the following statements is true?

a) Insurance protects the asset
b) Insurance prevents its loss
c) Insurance reduces possibilities of loss
d) Insurance pays when there is loss of asset

5. Which of the following statements is true?

a) Insurance facilitates free investment of capital in business
b) Insurance encourages commercial and industrial development
c) Insurance contributes commercial and industrial development
d) Insurance contributes to national productivity
e) All the three above

6. The duty of disclosure of material information

a) Applies to insured
b) Applies to the agent
c) Applies to the insurer
d) All three

7. Out of 400 houses, each valued at Rs.20,000. 4 houses get burnt every year on an average resulting in a loss of Rs.80,000. What should be the annual contribution of each house owner to make good this loss?

a) Rs.100
b) Rs.200
c) Rs.80
d) Rs.400

8. Which of the following statements is true?
1. Insurance provides direct benefits to individuals
2. Insurance provides indirect benefits to the community

a) Only Statement 1
b) Only Statement 2
c) Both Statements
d) Neither of the Statements.

9. Which of the following statements is true?
1. Insurance prevents the losses from happening
2. Insurance spreads the losses amongst the insured

a) Only Statement 1
b) Only Statement 2
c) Both Statements
d) Neither of the Statements.

10. Which of the following are requisites of a valid insurance contract?
1) Consideration 2) Parties of the same mind
3) Parities are competent of contract

a) 1
b) 2
c) 1 and 2
d) All three

11. Which of the following statements is correct according to law?
1. The parities to a commercial contract have to observe good faith
2. The parties to an insurance contract have to observe utmost good faith

a) 1 is correct
b) 2 is correct
c) Both are correct
d) Both are incorrect

12. Which of the following statements is correct?
1. A void contract has no legal validity
2. A violable contract remains a contract until the insurer exercises his option to avoid the contract

a) 1 is correct
b) 2 is correct
c) Both are correct
d) both are incorrect

13. If there is no insurance interest the insurance contract becomes
a) Unenforceable in a Court of Law
b) illegal
c) Void
d) avoidable

14. Which of the following makes the contract unenforceable in a Court of Law?
a) The proposer has committed non- disclosure
b) The proposer has committed mis- representation
c) The proposer has given wrong address of property due to a clerical error
d) The policy is not stamped as per Indian Stamp Act.

15. The object of the principle of indemnity is to
a) Pay the full cost of repairs
b) Pay the full cost of replacement
c) Pay the cost of reinstatement
d) Prevent the insured form making any profit out of his loss

16. Sum insured under an insurance policy means
a) It is the agreed value of subject matter insured
b) The amount payable when there is a loss
c) The amount on which the premium is calculated
d) The maximum limit of liability under the policy

17. Agreed Value policies are issued for
a) Marine cargo
b) Marine hull
c) Marine cargo and hull
d) Fire insurance on high valued machinery

18. Which of the following ensure that the amount of claim payable is less than the actual amount of loss.
a) Pro-rata average
b) Excess limit
c) Salvage
d) All the three above

19. Consent of insurers is not required for the assignment of
a) Marine hull policies
b) Marine cargo policies
c) Fire policies
d) Burglary policies

20. Subrogation condition does not appear in
a) Fire policy
b) Marine cargo policy
c) Burglary policy
d) Baggage policy

21. Which of the following statements is correct?
1. Subrogation under common law is implied in contracts of indemnity.
2. Subrogation under common law arises only after payment of loss
a) 1 is correct
b) 2 is correct
c) Both are correct
d) Both are incorrect

22. Insurable interest in not always required at the time of taking the policy.
a) Fire insurance
b) Marine hull insurance
c) Marine cargo insurance
d) Burglary insurance

23. Proximate cause has to be selected
a) When two or more causes operate simultaneously
b) When two or more causes operate on after another
c) When insured peril and excluded peril operate together
d) All there above

24. If an insurance policy is not stamped as per Indian Stamp Act, the contract becomes
a) Illegal
b) void
c) Void able
d) Unenforceable in a Court of Low.

25. Which of the following does not affect the amount of loss payable under the policy?
a) Breach of utmost good faith
b) Salvage
c) Pro-rata average
d) Excess clause

26. Which of the following statements is correct?
1. Subrogation does not arise in personal accident insurance.
2. Contribution does not arise in personal accident insurance
a) 1 is correct
b) 2 is correct
c) Both are correct
d) neither is correct

27. Insurance contracts are not gambling transactions because
a) They are based on insurable interest
b) The policy is stamped
c) Full premium is paid
d) All material facts are disclosed

28. When there is fraudulent breach of utmost good faith the insurance contract becomes
a) Unenforceable in a Court of Law
b) Illegal
c) Void
d) Voidable

29. Which of the following statements is true?
1. In fire insurance insurable interest is required both at the time of taking the policy and at the time of loss
2. In marine hull insurance insurable interest is required both at the time of taking the policy and at the time of loss
a) 1 is true
b) 2 is true
c) Both 1 and 2 are true
d) both are false

30. Which of the following statements is true?
1. No claim can be paid under an illegal policy
2. Claim can be paid, at the option of the insurer under a void policy
a) 1 is true
b) 2 is true
c) Both 1 and 2 are true
d) both are false

31. Which of the following documents have to be stamped as per Indian Stamp Act?
1. Endorsement on a fire policy increasing the sum insured.
2. Marine open cover for export shipments
a) 1 only
b) 2 only
c) Both 1 and 2
d) both are false

32. If there is a non- disclosure of a material fact due to oversight, the insurance contract becomes
a) Void
b) Voidable
c) Illegal
d) invalid

33. Which of following statements is true.
1. The proposer need not disclose facts which he considers as not material.
2. Facts which are of common knowledge need be disclosed.
a) 1 is true
b) 2 is true
c) Both 1 and 2 are true
d) both are false

34. The contractual duty of utmost good faith applies
a) To motor insurance only
b) To marine cargo insurance only
c) To fire insurance only
d) All insurances here proposal form with a declaration clause is used

35. Which of the following is an evidence of insurance contract?
a) Payment of premium
b) Acceptance of proposal
c) Insurers' prospectus
d) policy of insurance

36. The principle of utmost good faith requires the proposer to disclose material facts
a) Which he knows
b) Which he ought to know
c) Which he knows and ought to know
d) None of the above

37. Transfer of rights and liabilities of an insured to another person who has insurable interest is known as
a) Consideration
b) Subrogation
c) Assignment
d) Endorsement

38. In which of the following policies the principle of indemnity is modified.
a) Fire Declaration policy
b) Fire Floating policy
c) Fire Reinstatement policy
d) Fire loss of profits policy

39. The legal right to insure means
a) Consideration as per Indian Contract Act.
b) Competence as per Indian Contract Act.
c) Assignment
d) Insurable interest

40. An insured cannot recover more than his actual loss because of
a) Under- insurance
b) excess clause
c) Principle of indemnity
d) franchise clause

41. In which of the following insurances the principle of indemnity is modified.
a) Public Liability
b) Fidelity Guarantee
c) Marine Cargo
d) Baggage Insurance

42. The principle of indemnity arises under the
a) Insurance Act 1938 (as amended)
b) IRDA Act
c) Indian Contract Act
d) Common Law

43. Which of the following principles prevents an insured form making a profit out of his loss.
a) Proximate cause
b) Pro-rata average
c) Indemnity
d) Insurable interest

44. How much is the amount of claim payable, if sum insured is Rs. 2 lakhs, the 'excess' limit is Rs.20,000/- and the loss is Rs.25,000/-.
a) Rs.20,00
b) Rs.25,000
c) Rs.15,000
d) Rs.5000

45. Which of the following statements is true?
1. Marine Cargo policies are valued policies
2. Marine Hull policies are valued policies
a) 1 is true
b) 2 is true
c) Both are false
d) Both are true

46. Which of the following is not a contract of indemnity in the strict sense.
a) Mediclaim insurance
b) personal accident insurance
c) Fidelity guarantee
d) Burglary insurance

47. The principle of subrogation applies under
a) Products liability policy
b) fidelity guarantee policy
c) Fire policy
d) All the above

48. A policy with a sum insured of Rs.1 lakh is subject to a 'franchise' limit of Rs.10,000/-, what is the amount payable if the loss is Rs.15,000/-?
a) Rs.15,000
b) Rs.5,000
c) Rs.25,000
d) nil

49. Under which of the following clauses, the insured has to bear a part of the loss.
a) Pro-rata average
b) Franchise clause
c) Excess clause
d) All the above clauses

50. When there are several policies on the same subject-matter, each insurer pays only a proportion of the loss. This is known as.
a) Pro- rata average
b) franchise
c) Contribution
d) subrogation

51 What is the amount of claim payable if the loss is Rs.8,000 under a policy with a sum insured of Rs. 1 lakh and excess limit is Rs.10,000/-
a) Nil
b) Rs.10,000
c) Rs.8,000
d) Rs,2,000

52. The principle of indemnity is applied through deduction
a) For under insurance
b) for depreciation
c) Under franchise clause
d) under excess clause

53. A policy with a sum insured of Rs.1 lakh is subject to a 'franchise' limit of Rs.10,000, what is the amount of claim payable if the loss is Rs.5,000?
a) Rs.10,000
b) Rs.15,000
c) Rs.5,000
d) nil

54. Which of the following statements is true?
1. Contribution applies only to contracts of indemnity
2. Contribution does not apply to personal accident
a) 1 is true
b) 2 is true
c) Both 1 and 2 are true
d) both are false

55. If a warranty is breached the policy becomes
a) Void
b) Voidable
c) Invalid
d) unenforceable in Court of Law

56. The purpose of the proposal form is to provide forms
a) Material information
b) Declaration that the answers are true and accurate
c) Agreement of the insured that the form shall be the basis of the insurance contract
d) All the above three

57. Which of the following questions is common to all proposal forms.
a) Proposer's previous insurance
b) Proposer's present insurance
c) Past losses
d) All the above

58. In motor insurance Certificates of insurance are issued because
a) Make of vehicle is not known
b) Year of manufacture is not known
c) Seating capacity is not known
d) It is required by the Motor Vehicles Act

59. As per the IRDA Regulations in which of the following insurance, written proposal is not necessary.
a) Fire insurance on Cargo industrial risks
b) Marine cargo insurance
c) Compulsory public liability
d) Fidelity Guarantees

60. Certificates of insurance are issued in
a) Marine hull insurance
b) marine cargo insurance
c) Engineering insurance
d) Workmen's compensation insurance

61. Which of the following statements is true?
1. Endorsements are issued at the time of issuing the policy as part of the policy
2. Endorsements are issued after the policy to record alterations

a) 1 is true
b) 2 is true
c) Both are false
d) Both are true

62. To arrive at final rate by loading the pure rate, which of the following is not taken into account?

a) Past losses
b) Unexpected heavy losses in the future
c) Margin for expenses of management
d) margin for profits

63. Rate of premium is based on

a) Degree of hazard
b) variations in degree of hazard
c) Past loss experience
d) all the above

64. Which of the following is paid out of 'pure premium?'

a) Losses
b) Agency Commission
c) Expenses of management
d) Unexpected heavy losses

65. Under IRDA guidelines which of the following policies fall under Individual and Experience rated products.

a) Group Personal Accident
b) Group Health
c) Motor Fleets
d) All the above

66. Final rate of premium is arrived at by loading the pure rate of premium to provide for

a) Commission to intermediaries
b) Expenses of management
c) Margin for profit
d) All the above three

67. Which of the following is true? No insurer shall assume any risk unless and until

a) The premium is received in advance
b) The premium is guaranteed to be paid
c) A deposit is made in
d) all the above

68. As per IRDA regulations no commission or brokerage can be paid by insurers exceeding ________% of premium payable in respect of policy through agents or brokers

a) 10 %
b) 15 %
c) 20%
d) 30 %

69. As per the Insurance Act, 1938 (as amended) an insurer has to obtain a report form a licensed surveyor if the loss equals or exceeds.

a) Rs.15, 000
b) Rs.20, 000
c) Rs.25, 000
d) Rs.50,000

70. Which of the following are the functions of IRDA?
1. To regulate the rates of premium offered by insurers
2. To regulate investment of funds by insurance companies

a) 1 only
b) 2 only
c) Both are true
d) Neither

71. Which of the following statements is true under Code of conduct for Agents?
1. The Agent must disclose his license to the prospect on demand
2. The Agent must disclose the scales of commission under policies offered for sale, if asked by the prospect.

a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

72. As per General Insurance Business (Nationalization) Amendment Act 2002, General Insurance Corporation of India shall carry on.

a) Reinsurance business only
b) Overseas reinsurance business only
c) Terms and conditions of insurance
d) All the above

73. Which of the following are the functions of IRDA. To protect the interests of policyholders in matters of

a) Settlement of claims
b) Fair and equitable rates of premium
c) Terms and conditions of premium
d) All the above

74. Under IRDA guidelines which of the following is eligible to become a corporate agent.

a) A banking company
b) A cooperative society
c) A non- government organization
d) All of the above

75. As per the Code of Conduct, which of the following is true? The agent must inform promptly the prospect about

1. The acceptance of the proposal by the insurer
2. The rejection of the proposal by the insurer

a) 1 is true
b) 2 is true
c) Both are true
d) both are false

76. Which of the following statements is true?

1. Corporate insurance executive has to undergo training and pass the licensing examination.
2. Specified persons' have to undergo training and pass the licensing examination

a) 1 is true
b) 2 is true
c) Both are true
d) neither is true

77. Who among the following is eligible to be nominated 'Corporate Insurance Executive' by a corporate agent?

a) A partner (in the case of a firm)
b) A director (in the case of a company)
c) One or more of its officers
d) All the above

78. As per IRDA Regulations which of the following is not a function of Third Party Administrators.

a) Collection of premium
b) Collection of claims documents
c) Claims scrutiny and processing
d) Claims payment

79. As per IRDA Regulations a Surveyor has to be appointed within _____hours/ days of receipt of claim intimation form the insured.

a) 24 hours
b) 72 hours
c) 7 days
d) 15 days

80. Third Party Administrator's cash less' service mean

a) Admission to a specified hospital without admission fees payment

b) Admission to a specified hospital without deposits

c) Admission to a specified hospital without payment of covered expenses of treatment

d) All the above

81. As per IRDA Regulations a Surveyor shall submit the survey report to the insurer within ______ days of his appointment.

a) 15 days

b) 30 days

c) 45 days

d) 60 days

82. Rejection of claim by the insure shall be communicated to the insured within a period of ______days form the receipt of the survey report.

a) 15 days

b) 30 days

c) 45 days

d) 60 days

83. Insurer shall, within a period of _____ days of receipt of survey repost, offer a settlement of claim to the insured.

a) 15 days

b) 30 days

c) 45 days

d) 60 days

84. Micro-insurance product under IRDA Regulations means

a) A health insurance contract

b) A personal accident contract

c) A livestock insurance contract

d) All the above

85. on acceptance of offer of settlement by the insured. Insurer shall make the payment within ___days from the date of acceptance of offer.

a) 7 days

b) 10 days

c) 15 days

d) 30 days

86. Which of the following are allowed, under the regulations, to distribute micro-insurance products?

a) Individual agents

b) Corporate agents

c) Brokers

d) All the above

87. Which of the following statements is true?
1. A life insurer may offer life micro-insurance product as well as general micro-insurance products.
2. A general insurer may offer general micro- insurance product as also life micro- insurance products.
a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

88. Micro-insurance product under IRDA Regulations means
a) A non-government organization
b) a self help group
c) A micro-finance group
d) All the above

89. A District Forum under the Consumer Protection Act can entertain a complaint where the compensation claimed is less than Rs. ___________ lakhs.
a) 25 lakhs
b) 50 lakhs
c) 75 lakhs
d) 1 crore

90. Consumer Protection Act applies to
a) Private sector
b) Public sector
c) Cooperative sector
d) All the above

91. As per IRDA Regulations, the remuneration to the micro-insurance agent for non-life insurance business shall not exceed ________% of premium.
a) 5
b) 10
c) 15
d) 20

92. Which of the following statements is true?
1. State Commission can entertain appeals against the order of the District Forum.
2. National Commission can entertain appeals against the order of the State Commission.
a) 1 is true
b) 2 is true
c) Both are true
d) both are false

93. A District Forum under the Consumer Protections Act can entertain a complaint where the compensation claimed is less than Rs.___ lakhs.
a) 10 lakhs
b) 20 lakhs
c) 30 lakhs
d) 50 lakhs

94. An appeal against the order of the National Commission can be made within a period of _______ days form the date of order.
a) 30 days
b) 45 days
c) 60 days
d) 90 days

95. Which of the following are grounds for filing a complaint to the Ombudsman.
a) Insurer had rejected the complaint
b) Complainant had not received any reply to his written representation to the insurer within on month after receipt of compliant
c) The complainant is not satisfied with the insurer's reply
d) All the above

96. Which of the following statements is true.
1.Redressal of Public Grievances Rules apply to life and general insurance.
2. These Rules apply to personal lines insurance only.
a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

97. No complaints to the Ombudsman shall lie
a) If the complaint is made later than one year after the insurer had rejected the representation
b) If the complaint is pending in any Consumer Forum
c) If the complaint is subject of arbitration
d) All the above

98. Which of the following complaints cannot be made to the Ombudsman?
a) Total repudiation of claim by insurer
b) Partial repudiation of claim by insurer
c) Delay in settlement of claims
d) Premium rates are high

99. Which of the following is true as per the Redressal of Public Grievances Rules?
1. The Award should not be more than Rs. 20 lakh
2. The Awards should be made within three months form the date of complaint

a) 1 is true
b) 2 is true
c) Both are true
d) both are false

ANSWER PRACTICE QUESTION SET – I

1 (c), 2 (d), 3 (d), 4 (d), 5 (e), 6 (d), 7 (b), 8 (c), 9 (b), 10 (d), 11 (c),

12 (d), 13 (c), 14 (d), 15 (d), 16 (d), 17 (c), 18 (d), 19 (b), 20 (b), 21 (c),

22 (c), 23 (d), 24 (d), 25 (a), 26 (c), 27 (a), 28 (c), 29 (c), 30 (a), 31 (d),

32 (b), 33 (b), 34 (d), 35 (d), 36 (c), 37 (c), 38 (c), 39 (d), 40 (c), 41 (c),

42 (d), 43 (c), 44 (d), 45 (d), 46 (b), 47 (d), 48 (a), 49 (d), 50 (c), 51 (a),

52 (b), 53 (d), 54 (c), 55 (b), 56 (d), 57 (d), 58 (d), 59 (b), 60 (b),

61 (c), 62 (a), 63 (d), 64 (a), 65 (d), 66 (d), 67 (d), 68 (d), 69 (b), 70 (c),

71 (c), 72 (a), 73 (d), 74 (d), 75 (c), 76 (c), 77 (d), 78 (a), 79 (b), 80 (d),

81 (b), 82 (b), 83 (b), 84 (d), 85 (a), 86 (d), 87 (c), 88 (d), 89 (d), 90 (d),

91 (c), 92 (c), 93 (d), 94 (a), 95 (d), 96 (c), 97 (d), 98 (d), 99 (c)

CHAPTER 6

THE INSURANCE CONTRACT

This chapter explains the terms of an insurance contract and the various principles which form the foundation of insurance. The principle of insurable interest forms the basis for deciding who can take insurance and for whom. This chapter also explains how the principle of indemnity ensures that insurance can be used only to shield one from potential loss and not to profit from it and how the principle of subrogation ensures that the insurance company does not suffer losses by paying claims for the mistakes of some negligent third party. Moreover it also ensures that a person cannot claim from different sources. The principle of contribution ensures that the claimant does not benefit from multiple insurances of the same property. Also, we'll appreciate why we should disclose all relevant information at the time of taking an insurance policy, as specified by the principle of utmost good faith.

The insurance contract

Insurance is a contract between two parties:
a) the insurance company; and
b) the policyholder.
Insurance: a contract between two parties

- Proposer
- Insurance company

According to the insurance contract:

- the insurance company agrees to pay the policyholder a certain sum of money (sum assured);
- if the event (death or peril e.g. fire, earthquake etc.) specified in the insurance contract happens;
- provided the policyholder has been paying the premium(s) as specified in the insurance contract.

EXAMPLE:

Ramesh has taken a term insurance policy from an insurance company for 25 years. According to the policy terms, Ramesh has agreed to pay an

annual premium of Rs. 10,000. The insurance company has agreed that during these 25 years, if Ramesh dies, the company will pay Ramesh's family Rs. 50 lakhs (sum assured).

Terms of an insurance policy

The insurance policy would specify:

- The risk which is the subject matter of the contract
- The event upon which the liability of the insurer would arise
- The nature of liability of the insurer, the amount and the manner of payment
- The amount and manner of payment of premium by the policyholder
- Other obligations, if any, of the policyholder
- Consequences of any default in obligations by the policyholder
- Other terms and conditions affecting the operation of the contract.

What cannot be insured?

A contract that is void is not valid and cannot be enforced.

- Personal accident policy excludes disability or death caused by self-inflicted injuries as these are caused intentionally.
- Insurance policies do not cover fines payable for traffic offences such as breaking traffic rules and jumping signals.

Question 1

Which of the following events will be covered by an insurance company?

A. Death due to suicide in the first year of the policy

B. Disability due to self-inflicted injuries

C. Fines payable for traffic offences

D. Smuggled goods

E. None of the above

The significance of the principle of Insurable Interest

DEFINITION:

A person is said to have an 'insurable interest' when they stand to gain or benefit from the continued existence (safety) and well-being of the person or property insured, and would suffer a financial loss if there is damage to the person or property.

Insurable interest is the legal right of the person to insure the subject matter with which they have a legal relationship recognised by law.

Importance of the principle of Insurable Interest

The principle of insurable interest is very important as it forms the legal basis for deciding whether insurance can be taken or not. The proposer has to prove that they have insurable interest in the subject matter for which they want to take insurance.

Circumstances related to Insurable Interest

The Insurance Act, 1938 does not define insurable interest. Court judgments have established the circumstances in which insurable interest is deemed to exist. This can be broadly divided into three categories.

Common Law	Contract	Statute
Self	Employer – Employee	Executors and Trustees
Spouse	Company – Keyman	Bailees
Children	Partner	
Parents	Surety – Debtor	
Assets	Creditor – Debtor	
	Bank – Mortgage	
	Owner-Tenant	

1. Common Law

Self: a person has unlimited insurable interest in his/her own life. A person can take life insurance for self of any amount. Based on the amount of life insurance applied for by the person and after evaluating the premium paying capacity of the person from their financials, the insurance company may issue a life insurance policy for the requested amount or suggest a life insurance policy for a reduced amount or altogether reject the request for the life insurance policy in its requested form.

For example, Karan makes a proposal to a life insurance company for a cover of Rs. 25 crores. After studying the income documents submitted by Karan, the life insurance company feels that Karan will not be able to afford the premiums of the policy. In that case, the company can suggest a cover of a reduced amount or reject the application.

- **Spouse**: a husband has insurable interest in the life of his wife and similarly, the wife has insurable interest in the life of the husband. Both benefit from the well-being of each other and if something goes wrong with any one of them it affects the other adversely. So the husband can take life insurance cover and / or health insurance cover for his wife and vice versa.
  For example, Karan can take life insurance and / or health insurance cover for his wife and vice versa.
- **Children**: parents can take insurance for their children when children are dependants.
  For example, Karan can take insurance on the life of his children when they are dependent on Karan.
- **Parents**: children can take insurance for their parents when they are dependent on them.
  For example, Karan can take insurance for his parents if they are dependent on Karan.
- **Assets**: a person has insurable interest in the assets they own because they benefit from their use and are affected adversely when the assets get damaged.
  For example, Karan can take property insurance for his house and motor insurance for his car to shield himself from any losses due to damage to his assets.

2. Contract

- **Employer – Employee**: an employer has insurable interest in his employee to the extent of the value of his services. If a lot of employees fall sick at the same time or become a casualty in a catastrophe then this will be detrimental to the organisation. An employee has insurable interest in the life of his employer to the extent of his remuneration (monthly salary).
- **Company – Keyman**: a company has insurable interest in the life of certain important people whose absence can affect the company adversely. These people are key people and the company can take Keyman Insurance on the lives of these people.
- **Partners**: partners have insurable interest in the lives of each other. Absence of any of the partner/s can affect the firm adversely.
- **Surety – Debtor**: a surety has insurable interest in the life of the principal debtor and also in the life of his co-surety to the extent of the debt.

- **Creditor – Debtor**: a creditor has insurable interest in the life of the debtor to the extent of the debt.
  For example, Karan has given a loan of Rs. 10,000 to Sanjay. If Sanjay unexpectedly meets with an accident and dies then Karan will not be able to recover his Rs. 10,000. So Karan has insurable interest in the life of Sanjay to the extent of the loan amount i.e. Rs. 10,000.
- **Bank – Mortgage**: a bank has insurable interest in the property mortgaged against the loan.
  If a bank has given a vehicle loan against a car, then the bank has insurable interest in the car.

3. Statute

- **Executors and Trustees**: they have insurable interest in the properties under their charge
- **Bailees**: bailees which include garage owners, warehouse owners etc. have insurable interest in the goods held by them on behalf of others, for payment or otherwise.
- **Cargo Owners**: both buyers and sellers have insurable interest in goods in transit during sale. The seller has defeasible insurable interest and the buyer has a contingent interest. The insurable interest passes from the seller to the buyer at the point of delivery of goods. ['***Defeasible***' denotes that the interest can be 'invalidated' or made 'null and void'. '***Contingent'*** means that the interest is subject to some condition]

Insurable interest has to be proved at the following 3 stages

1. In some cases, only at the time of taking the policy:

Life Insurance: for life insurance, insurable interest must exist at the time of taking the policy. At the time of making the claim, it is not necessary to prove insurable interest.

2. In some cases, at the time of taking the policy and also at the time of making the claim:

Property Insurance: in the case of property insurance, insurable interest has to be proved at the time of taking insurance and also at the time of making a claim. A person who is going to acquire a property cannot take insurance for the property until they become the legal owner of that property. Also, a person who has taken insurance for a property cannot make a claim against damage to the property after they have sold the

property because they are no longer the legal owner of the property even though they had bought insurance for the property when they were the owner of that property.

Marine Hull Insurance: for marine hull insurance also, insurable interest must exist at the time of taking the policy and also at the time of making the claim.

3. In some cases, only at the time of making the claim:

Marine Cargo Insurance: in the case of marine cargo insurance, insurable interest must exist at the time of occurrence of the loss the claim. Even if the insurable interest does not exist at the time of taking the policy, the insurance company will still accept the proposal.

Novation: Fire, personal accident, motor and householder's policies are personal contracts. In these contracts the insurance company implicitly expresses confidence in the policyholder's integrity and ability to take proper care of the subject matter of insurance. Personal contracts can be transferred to another person with the consent of the insurance company. If the insurer agrees to the transfer, the contract will be virtually a new one. This alteration is termed as novation.

Assignment: There are certain situations like raising a loan against your life insurance policy when the policy would have to be assigned to the financial institution. When the policy is assigned the title of the policy is shifted from one's name to that of the institution.

Nomination: The nominee is the person to whom the insurance claim amounts would be payable, in case of the policyholder's death. The policy is usually taken to benefit one's family and the nominee would normally be a person who will look after the welfare of the family in the life insured's absence.

Reinsurance: Insurance companies have insurable interest in the subject matters that they have insured. They can insure these again with other insurance companies which forms the legal basis for reinsurance.

Question 2

Sanjay has given a loan of Rs. 15,000 to Mohit for 5 years. At the end of 4 years, the outstanding balance of the loan due is Rs. 2500. According to the principle of insurable interest, how much is the insurable interest of Sanjay on the life of Mohit?

A. The full loan amount of Rs. 15,000

B. The amount already paid of Rs. 12,500

C. The outstanding loan balance of Rs. 2,500

D. None. Sanjay cannot take insurance on Mohit's life as the two don't have any legal relationship

Indemnity

Insurance is meant to indemnify (i.e. compensate for losses). Broadly, according to the principle of indemnity, insurance should place the insured in the same financial position after the loss, as they enjoyed before it; not better. The principle of indemnity ensures that insurance cannot be used to make a profit.

EXAMPLE:

Ram insures his car for Rs. 2,00,000 and the car meets with an accident, resulting in damage of Rs. 45,000. In this case, according to the principle of indemnity, the insurance company will compensate Ram for Rs. 45,000 only, which is the amount of damage.

A bank has taken an insurance policy of Rs. 50,000 against the default in loan repayment by a personal loan borrower. The loan tenure is of 5 years. After 1 year, on repaying the principal of Rs. 10,000, the borrower defaults. The bank makes a claim to the insurance company against the default by the borrower. In this case, as per the principle of indemnity, the insurance company will pay the bank only the remaining portion of the unpaid loan of Rs. 40,000.

A private company has taken insurance cover against fraud or misappropriation by employees to the extent of Rs. 1,00,000. During the tenure of the policy, one of the employees commit fraud to the extent of Rs. 1,50,000. The company files a claim with the insurance company. In this case, even though the fraud was to the extent of Rs. 1,50,000, the claim that will be paid by the insurance company will be only Rs. 1,00,000, as the company has taken insurance cover only to the extent of Rs. 1,00,000.

How indemnity works:
1. Individual has taken motor insurance
2. Individual meets with an accident
3. Individual takes a claim
4. Insurance company indemnifies individual

In the case of damage to cars or equipment in factories, the claim amount that will be paid will be after deducting depreciation. This amount will be less than the cost of replacement.

The principle of indemnity also makes sure that the insured person does not make a profit from insurance by making the same claim with two insurance companies.

EXAMPLE:
Arjun has insured the same house worth Rs. 5,00,000 with two insurance companies for Rs. 5,00,000 each. Suppose there is damage to the house worth Rs. 3,00,000 due to fire. Arjun can't make a profit of Rs. 3,00,000 by claiming 6,00,000 from the two insurance companies (Rs. 3,00,000 separately from each of the two insurance companies). In this case, the two insurance companies will share the loss amongst them and compensate Arjun for a total sum of Rs. 3,00,000 only.

Loss of income
In some cases, the potential future losses are also compensated for.

Business Losses	Personal Income Losses
In the case of a factory which is damaged due to fire, it will take some time to restore normalcy. Till the time operations are back to normal there will be loss of production. This will lead to fall in sales and therefore fall in profits. Insurance companies do provide cover for such potential business losses.	An individual can take personal accident policy separately or as a rider as part of a life insurance policy. If the individual is not able to report to work due to an accident, then they can make a claim with the insurance company for compensation for loss of income / earnings, if the policy provides for it.

Indemnity in life insurance

Most general insurance contracts work on the principle of indemnity, but life insurance is an exception to this rule. The principle of indemnity does not apply to life insurance. Life insurance contracts are value contracts. There is no need to assess the extent of the loss. In life insurance policies, in the case of death, the full sum assured is paid.

> **EXAMPLE:**
> Karan has taken a life insurance policy of Rs. 10,00,000 for a period of 20 years. Karan pays premium on a quarterly basis. He dies in the seventh year of the policy and his nominee files a claim. The insurance company will pay the full policy benefit amount of Rs. 10,00,000.

In the case of life insurance, if a person has taken two policies from two different companies and if there is a claim on death of the person, the concept of sharing of claims does not apply.

Indemnity in general insurance

In general insurance, in the case of a claim, the insured can be indemnified in four ways.

Indemnity

- Reinstatement
- Replacement
- Cash payment
- Repair

Factors affecting indemnity

In general insurance, there are often disputes in settling claims due to the principle of indemnity. Losses have to be assessed by qualified surveyors. Many a times, these decisions are challenged by the insured. In general insurance, the manner in which the principle of indemnity is applied depends on the following:

- class of insurance
- subject matter such as property, liability, etc.
- type of policy

Application of indemnity

Fire Insurance	Motor Insurance	Marine Insurance	Liability Insurance
Machinery loss is indemnified by paying the cost of similar machinery after deducting depreciation charge for usage and wear and tear of the machinery. The principle of indemnity is strictly applied.	The sum insured is the Insured's Declared Value (IDV) of the vehicle. This represents the manufacturer's selling price of the vehicle. In case the vehicle is completely damaged, IDV is paid after deducting the value of the salvage.	Agreed Value Policies: in marine cargo insurance, the sum insured represents the cost of goods, freight, other incidental charges and a reasonable percentage of profit.	Liability policies (motor third party, public liability, products liability etc.) indemnify the insured in respect of damages awarded by law for personal injuries or damage to property of third parties.
In case of relatively new machinery, Reinstatement Value Policy may be issued. Under this policy, indemnity is provided by payment of cost of new machinery of the same type, without deduction for depreciation.	However, if the property has certain additional favourable features, a suitable deduction for betterment is made.	In repairable losses, the cost of repairs is paid, subject to depreciation on cost of new parts replaced.	In case of marine hull insurance, agreed value policies are issued. Fair value of ships, irrespective of their age, is fixed between the insurance company and the insured.

Factors that affect indemnity

To ensure that the insured is placed in the same financial position as he was prior to the occurrence of the covered incident, the following tools are used.

1. **Deduction for Under-Insurance or the Condition of Average**: If the insured insures his property for lesser than its actual value, it is unfair to the other contributors of premium to pay him the full loss. Hence a proportionate deduction for Underinsurance is made which is known as the condition of average.
2. **Deductibles or Excess**: General insurance does not cover losses that are certain and not fortuitous. To ensure that ordinary and certain losses are not reimbursed, an excess or deductible is applied at the time of underwriting, which is the amount of loss, the customer has to bear.
3. **Maximum amount recoverable in a general insurance policy**: The maximum amount recoverable under any policy is the sum insured, or actual loss whichever is higher.

Agreed value policies

On special types of properties such as artwork, paintings, obsolete machinery, vintage cars etc., arriving at a valuation is difficult. In such cases, the insured and the insurance company agree on a fair value for the property and an agreed value policy is issued. Sometimes, experts are called upon to obtain a valuation certificate for such properties. This is done to avoid disputes regarding valuation after a loss. In the event of loss, the agreed value is paid as compensation.

The principle of Subrogation and Contribution

Corollaries of the Principle of Indemnity:

There are two principles which are corollaries to the principle of indemnity. They are as follows.

Principle of Subrogation

Once the insurance company compensates the insured for the financial loss, the rights of the insured person get transferred to the insurance company. The process of transfer of rights from the insured person to the insurance company is known as subrogation. Subrogation can also be defined as surrender of rights by an insured against the third party to an insurance company that has paid a claim.

Subrogation ensures two things:

1. Having paid the claim, the insurance company gets the right to make good the damages from the party who caused the loss.

2. Having been indemnified by the insurer, the insured does not retain the right to get compensated by the party who caused the loss and thus make profit from insurance.

The Principle of Subrogation ensures that the insurance company does not suffer due to negligence, mistake or irresponsible behaviour of some third party. Subrogation thus reduces the insurer's losses. Also, justice demands that though the insurance company settles the claim, the third party responsible for the accident is not absolved of his or her financial responsibility.
Subrogation ensures also that the Insured does not get compensated more than once.

EXAMPLE:

Kishore, due to negligent driving, bangs his vehicle into Amitava's car, causing a damage of Rs. 10,000 to Amitava's car. Amitava has taken motor insurance and files a claim of Rs. 10,000 with the insurance company. The insurance company indemnifies Amitava for the damage to his car. After indemnification, the rights of Amitava to recover the damages from Kishore (due to his negligent driving) get transferred to the insurance company as per the process of subrogation.
The insurance company will sue Kishore to recover the damages of Rs. 10,000, which it has already paid to Amitava as part of the claim settlement process. [It is possible that Kishore has another insurance policy and his insurance company pays for his liability as per his insurance contract. This can cause a situation when insurance companies would be suing one another and spending time and money in litigation. In some countries, like India, this does not happen as there is a Knock for Knock agreement among Indian insurers so that damages to vehicles will not be claimed from each other. In other words, this is a waiver of enforcement of subrogation rights among a group of insurers.]
Thus, subrogation ensures that:
1. the insurance company does not suffer a claim / loss of Rs. 10,000 because of Kishore's mistake; and
2. along with claiming Rs. 10,000 from the insurance company, Amitava does not make a profit by recovering an additional Rs. 10,000 from Kishore.

Normally, the right of subrogation arises after the insurance company has accepted the insured person's claim and paid the claim. But there is usually a time gap of a few days, a month or even more between the

date the claim is raised by the insured person and the date the claim is settled by the insurance company. This time gap prevents the insurance company from gaining control of the situation immediately after the occurrence of the event.

How subrogation works

1. Individual has taken motor insurance
2. Individual meets with an accident
3. Individual takes a claim with insurance company
4. Insurance company recovers claim amount from negligent driver

Insurer cannot profit: Insurance Company is entitled to recover money from the third party, but only to the extent it has paid as compensation to the insured person. Subrogation makes sure that the insurance company as well as the insured does not profit. In the above example, the insurance company cannot recover from Kishore more than what it paid Amitava as claim (i.e. Rs. 10,000).

Principle of Contribution: The principle of contribution ensures that if there is more than one insurance policy drawn up on the same subject matter, the insured cannot recover their loss from all the insurers, in which case they will recover more than their loss, or even make a profit.

The principle of contribution ensures two things:

1. The insured does not profit by making separate claims from multiple companies for the same event.
2. Each insurer pays only their proportionate share of the loss.

The principles of subrogation and contribution do not apply to life insurance policies or personal accident policies. This is because loss of life and human suffering can never be fully assessed or compensated.

The principles of subrogation and contribution apply only to contracts of indemnity. So they apply only to general insurance contracts.

Question 3

Ajay has taken a life insurance policy worth Rs. 2,00,000 from insurance company ABC and another worth Rs. 2,00,000 from insurance company XYZ. In the event of Ajay's death, what will be the amount of compensation received by Ajay's nominee?

A. Rs. 200,000 from company ABC because Ajay took life insurance first from that company.

B. Company ABC and company XYZ will share the losses in proportion and pay Ajay's nominee a total of Rs. 2,00,000 as per the principle of contribution.

C. Rs. 2,00,000 will be paid by company XYZ because it was the last company to issue a policy to Ajay.

D. Total Rs. 4,00,000 will be received, which includes Rs. 2,00,000 from company ABC and company XYZ each, as the principle of indemnity does not apply to life insurance.

Utmost Good Faith

Insurance contracts are of a fiduciary nature and are based on trust. In insurance, the relevant facts relating to the subject matter of insurance are known to one party to the contract i.e. the proposer and cannot be known to the other party i.e. the insurance company, unless disclosed by the proposer.

Material Facts

A fact is said to be material, if it affects the decision of the underwriter to accept or reject the risk or to determine rates, terms and conditions if the risk is accepted. That is, if the 'fact' is relevant to the assessment of the risk and determination of the premium.

Based on the information received from the proposer, the insurance company can decide:

1. Whether to accept the proposal or reject it; and
2. The appropriate premium to be charged if the proposal is accepted.

EXAMPLE:

Following are some examples of material facts.

- ❖ Life Insurance: own medical history, family history of hereditary illnesses, habits like smoking and drinking, absence from work, age, hobbies etc.
- ❖ Fire Insurance: construction and usage of building, age of the building, nature of goods in premises etc.

There are two ways in which the principle of Utmost Good Faith is breached.
Non Disclosure: Not disclosing material facts
Misrepresentation: Giving wrong information.

Non-disclosure of material facts puts the insurer at a disadvantage. When material facts are withheld by the proposer knowingly, the two parties (proposer and insurer) are not of the same mind. Even if the suppression has happened unintentionally or by mistake, the insurance company is deceived and the risk accepted is different from the risk understood and intended to be accepted by the insurer. If the insurance company comes to know about the wrong / withheld information, it can declare the contract void. The insurance company may choose not to exercise that right. The insurance company may give a chance to the proposer to modify the mistake and pay the correct premium.

Indisputability or incontestability clause (Section 45) (Applicable only to Life Insurance Policies as they are long term contracts)
According to Section 45 of the Insurance Act, in the first two years of the policy, if the insurance company comes to know that some material fact has not been disclosed by the proposer, it can declare the policy as null and void. The insurance company can forfeit all the premiums paid. But this right can be enforced by the insurance company only during the first two years of the policy.
After two years, fraud must be established to make the policy void. This clause is referred to as the 'indisputability' or 'incontestability' clause. This applies to life insurance.
Non-disclosure
Non-disclosure can be alleged in the following circumstances:
- ❖ The fact (hidden information) must be known to the proposer.
- ❖ The fact must not have been known to the insurer.
- ❖ The fact, if made known to the insurer, may have affected the insurance company's decision to accept the insurance proposal.
- ❖ The fact must have been deliberately held back with the intention to obtain better terms of insurance.

Duty of disclosure in life insurance

In the case of life insurance, the duty of disclosure ends with the completion of the contract. Any material fact emerging after the risk has commenced does not have to be disclosed.

Duty of disclosure in non-life insurance

In non-life insurance, the contract will stipulate whether changes are required to be intimated or not. In the case of non-life insurance at the time of renewal, the duty of disclosure will arise. Non-life insurance contracts are for one year and are to be renewed on an annual basis. When an alteration is made to the original contract affecting the risk, the duty of disclosure will arise.

Duty of disclosure on insurance companies

The duty of disclosure of material facts is on the insurance company also as much as it is on the policyholder. Policyholders are not aware of benefits available and obligations under various policies.

Some insurance companies may give a rebate on premium to some customers who adopt safety measures, maintain good health, do not smoke etc. An agent showing fancy predictions of returns and bonuses to customers in order to extract business from them is breach of the principle of utmost good faith.

Question 4

According to Section 45 of the Insurance Act, on finding out about nondisclosure of material facts, in how many years can the insurance company declare the contract as null and void?

A. Only at the time of accepting the proposal

B. Only during the first year of the policy

C. During the first two years of the policy

D. Never. Once the insurance company issues the policy it cannot declare the policy void due to non-disclosure of material facts.

The Concept of Proximate Cause

Proximate cause is defined as the active and efficient cause that sets in motion a chain of events which brings about a result, without the intervention of any force started and working actively from a new and independent source.

The dominant, effective or operative cause of an event is known as the proximate cause. If there is a chain of events leading to this cause, it should be examined, whether the first cause was an insured peril and whether the ultimate cause has resulted from an uninterrupted chain of events, without an independently intervening cause interfering in between.
To understand the principle of proximate cause, consider the following situation:

EXAMPLE:
Ajay's car was stolen. Two days later, the police found the car in a damaged condition. Investigation revealed that the thief had banged the car into a tree. Ajay filed a claim with the insurance company for the damages to the car. To Ajay's surprise, the insurance company rejected the claim. The reason given by the insurance company was that 'theft' was the reason for the damage to the car and theft was an excluded peril in the insurance policy that Ajay had taken for his car and hence the insurance company is not liable to pay the claim.

Insurance companies provide cover only against losses caused by insured perils. Insurers have a list of excluded perils against which they will not pay the claim. The concept of proximate cause is used to determine whether the cause of loss is an insured peril or an excluded peril. If there are two causes for the loss, whetheroperating simultaneously or in sequence, the immediate cause is known as the proximate cause for the damage. The insurance company will pay the claim only if this identified proximate cause is an insured peril and it is responsible for the damage / loss caused.
In Ajay's case, the insurance company gave an explanation that there were a series of events that led to damage to the car. The thief stole the car and ultimately banged the car into a tree, leading to damage to the car. According to the insurance company, theft was the main reason for the damages to the car and theft being an excluded peril, the insurance company was not liable to pay the claim.

When there is a series of events that lead to a loss, and if all the events are insured perils then there is no need to identify the proximate cause as all the events are insured perils and the claim would anyway be paid by the insurance company. Identifying the proximate cause is not easy at all and making a judgement on the basis of that is equally difficult. Many

a times, the insured does not accept the insurance company's decision and seeks judicial intervention.

Question 5

A house was burnt and weakened by fire. After many days, there was a storm and it brought down the house completely. In this case, what will be considered the proximate cause?

A. Fire
B. Storm
C. Both of the above
D. None of the above

Summary

- ❖ Insurance is a contract between 2 parties; the policyholder and the insurance company.
- ❖ The insurance contract specifies the subject matter, the nature of the liability, when it will arise and the amount. The insurance contract also specifies the amount and manner of premium, other obligations of the policyholder and the consequences of default.
- ❖ The principle of insurable interest gives the person the right to insure a subject matter with which they have a relationship recognised by law. Insurable interest can be on the basis of common law, contract or statue.
- ❖ In some cases, insurable interest has to be proved only at the time of making a proposal, in some cases only at the time of making the claim and in some cases both at the time of making a proposal as well as at the time of making a claim.
- ❖ The principle of indemnity ensures that insurance places the insured in the same financial position after the loss, as they enjoyed before it, not better.
- ❖ In general insurance the insured can be indemnified in 4 ways: cash, repair, replacement, reinstatement.
- ❖ As per the principle of subrogation, the rights of the insured are passed on to the insurance company to recover the claim amount from the third party responsible for the loss.
- ❖ If there are two policies on the same subject matter, the principle of contribution requires that both the insurance companies pay their proportionate share of the claim and the insured does not make a profit by making a claim to both the companies.

- ❖ The principles of indemnity, subrogation and contribution do not apply to life insurance.
- ❖ The principle of utmost good faith imposes a duty of disclosure on both the insurer and the insured to disclose all material facts relevant to the insurance contract.

Answers to Test Yourself

Answer to TY 1

The correct option is E.

Insurance companies do not cover events like suicide in the first year, disability due to self-inflicted injuries, fines payable for traffic offences, smuggled goods which are against public policy etc.

Answer to TY 2

The correct option is C.

As per the principle of insurable interest, a creditor can have insurable interest on the life of the debtor only to the extent of the outstanding loan amount.

Answer to TY 3

The correct option is D.

Principle of indemnity does not apply to life insurance so Ajay's nominee can file a claim with both the companies and get the sum insured separately from both the companies.

Answer to TY 4

The correct option is C.

As per Section 45 of the Insurance Act, on finding out about non-disclosure of material facts, the insurance company can declare the insurance contract as null and void during the first two years of the policy.

Answer to TY 5

The correct option is B.

In this case the storm will be held the proximate cause. Even after the fire, the house was intact for many days and it was the storm that ultimately brought down the house.

Self-Examination Questions

Question 1

Feroz has taken a fire insurance policy from Company ABC for Rs. 1,00,000 and another fire insurance policy from Company XYZ for Rs. 50,000. There is a fire in the house and the loss is Rs. 75,000. How much will be the claim paid by each company?

A. Company ABC will pay the full amount of Rs. 75,000 as Feroz first took the policy from Company ABC and the policy coverage amount is Rs. 1,00,000, which is enough to cover the full loss amount.

B. Company ABC and Company XYZ will share the losses equally and pay Rs. 37,500 each.

C. Company ABC and Company XYZ will share the losses proportionately. Company ABC will pay Rs. 50,000 and Company XYZ will pay Rs. 25,000.

D. Company XYZ will pay the full policy amount of Rs. 50,000 as it was the last company to insure the house. The remaining loss of Rs.25,000 will be paid by Company ABC.

Question 2

Ramesh had taken a life insurance policy of Rs. 1,00,000 from Company ABC and another life insurance policy of Rs. 50,000 from Company XYZ. On Ramesh's death, his nominee makes a claim. How much is the claim amount that he will receive?

A. Nominee will receive only Rs. 1,00,000 from Company ABC as it was the first company to offer insurance cover to Ramesh.

B. Nominee will receive total Rs. 75,000 out of which Rs. 50,000 will be paid by Company ABC and Rs. 25,000 will be paid by Company XYZ.

C. Nominee will receive only Rs. 50,000 from Company XYZ as it was the last company to offer insurance cover to Ramesh.

D. Nominee will receive total Rs. 1,50,000 out of which full benefit amount of Rs. 1,00,000 will be paid by Company ABC and full benefit amount of Rs. 50,000 will be paid by Company XYZ.

Question 3

For which of the family members mentioned below can Karan take health insurance?

A Parents

B Brothers

C Sisters

D All of the above

E None of the above

Question 4

Mahesh has finalised a resale property which he plans to purchase 3 months later. The current owner has not taken property insurance and Mahesh is worried that the property may be destroyed or damaged due to some peril. What can Mahesh do?

A Mahesh can take property insurance for the property right away as he has the right to protect the property that he is going to own in future.

B Mahesh can take insurance for the property only after he becomes the legal owner of the property.

C Mahesh can exercise any of the above options.

D Mahesh can't take insurance for that property as property insurance can be taken only by the first owner of the property.

Question 5

David and Anthony are brothers going for a picnic on their bikes with their spouses. Both have taken insurance for their bikes. Due to Anthony's negligent driving, both the brothers bang into each other and David's bike is damaged. How will the insurance claim be settled?

A David's insurance company will settle the claim and Anthony will get away with his negligent driving as he is David's brother.

B David's insurance company will settle the claim and recover the money from Anthony as he was responsible for the accident due to his negligent driving.

C The insurance company will not interfere as it is a family matter between the two brothers and the insurance company has got no role to play as insurance companies don't interfere in family matters.

D Anthony will take the money from his insurance company and pay for the repairs of his brother's bike.

Answer to Self-Examination Questions

Answer 1

The correct option is C.

As per the principle of contribution, if there are two policies on the same subject matter then the losses will be shared by the two companies in proportion to the amount of risk covered by them.

Answer 2

The correct answer is D.

The principles of indemnity and contribution do not apply to life insurance. Hence, both the companies will pay the full benefit amount and the nominee will get a total claim amount of Rs. 1,50,000.

Answer 3

The correct answer is A.

As per the principle of insurable interest, Karan can take health insurance for self, spouse, children and parents.

Answer 4

The correct answer is B.

In the case of property insurance, insurable right should exist at the time of taking insurance and also at the time of making the claim. Hence, in this case, Mahesh can take insurance for the property only after he becomes the legal owner of the property.

Answer 5

The correct answer is B.

As per the principle of subrogation, David’s insurance company will settle David’s claim and recover the money from Anthony as he was responsible for the accident and the insurance company should not suffer a loss due to Anthony’s mistake.

CHAPTER 7

INSURANCE TERMINOLOGY

This chapter explains the common terms used in insurance. Some terms are common to both life and non-life insurance whereas some terms are specific to life and non-life insurance. It is important to be able to understand these terms and the way they are used as well as explain these terms in simple language.

Technical terms in life and non-life insurance

Insurance is a contractual process wherein a person protects their physical assets (such as a car or home) as well as life from certain events or perils by transferring the risk to an insurer. An insurer is a company who provides protection by entering into a contract with the person seeking protection for their assets. The person who applies for insurance protection is called the **insured**.

The insurance process starts with an application in writing, called a proposal, made by the person who wants to take insurance and includes details of what they want to insure and the type of cover they require. The proposal is given to an underwriter whose job is to assess the proposal and decide:

- Whether insurance can be given or not;
- If given, what will be the terms of the policy; and
- What will be the amount of premium to be charged

Premium is the amount of money or consideration that has to be paid in exchange for the insurance. When a person requesting insurance agrees to the terms offered by the insurer and pays the premium, the contract is complete and the risk commences. At this stage, an insurance policy is issued by the insurer.

The **insurance policy** is the evidence of the contract and states the terms and conditions of the contract, details of promises made by the insurer, obligations of the policyholder and conditions attached thereto. It also contains the following:

- Any amendments to the standard policy conditions: these amendments are called **endorsements** and would normally be written separately and signed by the insurer.

- **Details regarding what is being insured**: called the **subject matter of insurance** and may be car, building, machinery, stock, or in the case of life insurance, a human life.
- The **sum assured**: which is the value of the subject matter of insurance and becomes the basis for payments made by the insurer in the event of a claim.
- The sum assured is the maximum amount of the insurer's liability under the policy.
- **The tenure of the policy Or period of insurance**: this is called the **term** and may be as little as a few hours (e.g. travel insurance for air travel from one city to another) or as much as a year for non-life insurance products, or many years for a life insurance policy.
- **Exclusions**: the policy may also have **exclusions**, which arise when the underwriter excludes some losses, perils from the cover. These are included in the terms of the policy as "**Exclusions**" conditions or special endorsements.

The policy will also state any conditions to the policy. There are three types of conditions for insurance policies. These are:

- **Conditions Precedent**: which require the insured to disclose any material facts to make sure the policy is valid.
- **Conditions Subsequent**: which require notification of changes while the policy is valid. The policy may cease to operate if these conditions are not met.
- **Conditions Precedent to Liability**: which require the insured to give notice of an event happening within a specified period of time and also comply with certain stipulations prior to the occurrence of the loss; for e.g. condition of dual control in a policy covering dishonesty of employees.

It is important that the customer is truthful in the statement they make to the insurer. A statement (which has a bearing on the risk), regardless of whether made in writing or verbal, by the person requesting insurance is called a **representation**.

Warranties, unlike representations, must be strictly complied with. A warranty is a promise, assurance or guarantee made by the policyholder. Warranty is promissory in nature. Breach of warranty in a general

insurance policy, makes the policy voidable, even if the breach has not resulted or contributed to the loss.
If a warranty is breached there will be a penalty. In some cases, a breach of warranty will make the policy void. An example of a warranty is the declaration at the end of the proposal. There may also be warranties attached to policies as terms or conditions of the policy.

A person making the claim is known as the **claimant**. In non-life policies, the claimant is the policyholder. In the event of death of a life insurance policyholder, the person making the claim is the claimant who could be a nominee, assignee or legal heir.

Sometimes insurers pay a claim even if the claim is not payable under the terms of the policy. These payments are called **ex-gratia payments**. This is usually done if the conditions of insurance have been substantially met even though there has been a minor irregularity.

An **assignment** is the transfer of rights and liabilities of the policyholder to someone else. The policyholder who transfers the rights and liabilities is known as the **assignor**, and the person to whom they were assigned is known as the **assignee**.

The way insurance premiums are calculated is highly technical. A person known as an **actuary** is generally responsible for calculating and certifying that the insurer's premium rates are viable. An actuary is responsible for making periodic valuation of funds and reserves of life insurers and to certify their solvency margins.

When an insurer receives premium, a certain amount is set aside to meet their liabilities. This is called **premium reserve**. The premium received each year is meant to pay claims during the term of the policy. In life insurance, where the period of insurance goes beyond a year, the terms of the policies will extend beyond the current accounting year. To make sure the funds are available to meet these claims, a part of the premium is set aside in premium reserve. In life insurance, premium reserve is called the **life fund**. All revenues go into the life fund and all claims are met out of the life fund.

The way business is classified, varies depending upon how the business is written. **Gross Direct** business is business written directly from the market. If part of that business is reinsured, it is referred to as **ceded**. When business is written from other insurers as reinsurance, it is referred to as **accepted**. The direct business plus the accepted reinsurance business less the ceded reinsurance business is called **Net** business.

Insurance business is often described in terms of ratios. The ratio of expenses to premium is known as **expense ratios**. It is important that these ratios are monitored because:

- the laws prescribe limits on expenses
- a part of all premiums is used for expenses and it is important to ensure that actual expenses do not exceed estimated expenses

The amount of premium paid out in claims is called **loss ratios**. In general insurance there is a concept called incurred claims ratio or ICR. ICR is calculated as follows:

$$\text{ICR} = \frac{\text{Claims paid during the year + Outstanding claims at end of year – Outstanding claims at begining of year}}{\text{Premium Income}}$$

Loss ratios help insurers make decisions on future growth of the business, as loss ratios are calculated separately for each class of business. They can also be calculated for each class of policyholders. Loss ratios indicate viability of business.

The combined figure of loss ratio plus expense ratio is called the **combined ratio** and this figure reflects the overall underwriting profitability.

The 2nd National Family Health Survey (NFHS-2), the Mortality and Morbidity Investigating Centre (an affiliate of the Institute of Actuaries of India), the Life Insurance Council and IRDA are involved in preparing and updating **the Mortality (death rates) and Morbidity (other than death loss rates) tables** which reflect the experience in India.

Mortality and Morbidity rates are not the same as loss ratios; they indicate the actual incidence of death or sickness in the market. Loss ratios show the premium required to pay claims.

Lloyd's is an old and prestigious institution in London that provides useful services to the insurance world. It was a coffee club from where the concept of insurance is said to have begun. It is a corporation where the members, and not the corporation, underwrite insurance.

Protection and Indemnity Associations (P&I Clubs) insure ship owner's liability for cargo, crew and damage to ships in collisions.

Question 1
The process of applying for insurance is called ____________.
A. Application
B. Consideration
C. Endorsement
D. Proposal

The terms that are specific to life insurance

DEFINITION:

The premium paid initially at the commencement of the policy is referred to as the **First Premium** and the subsequent premiums that are paid after the first premium are called **Renewal Premiums**.

The frequency of premium payments is called **mode of payment**. Life Insurance premiums can be paid at varying intervals. The premiums may be paid in yearly, half yearly, quarterly or monthly installments.

There is an option of a **Limited Payment** policy, which means premiums are paid for a period shorter than the term of the policy, or if chosen, there is the option of a **Single Premium** policy if all the premiums are paid in the first year itself, at the start of the policy.

Depending upon the mode of payment, an insurer will allow the insured a certain number of **days of grace** to pay the premium. If the insured does not pay the premium within this time, the policy is in **default** of premium payment and it will then **lapse**. When a policy lapses, the benefits of the policy can either be totally or partly lost. The loss of benefits will depend upon the terms of the policy and the amount of time that has passed since the policy commenced. It may be possible for a lapsed policy to be **converted into a paid up policy** which will provide the benefits of the original policy, but with a reduced sum insured and without payment of any further premiums. There is also a **revival** process that can return a lapsed policy to its original status.

The term **'deferred date'** can have two meanings in life insurance. Firstly, it can be used in the case of a children's policy, where risk cover begins on a different date than the commencement date of the policy. Secondly, the term deferred date is also used to describe the date when the annuity begins. In both cases the time between commencement date and the deferred date is called the **deferment period**.

It is possible for a policyholder to transfer their rights under a policy to another person. This process is called **assignment**. The one who

transfers their rights is called the **assignor** and the other person is known as the **assignee**.

A policyholder can make a **nomination** under the policy. The person nominated is known as the **nominee**, and will be able to give a valid discharge to the insurer in the event of a death claim. Unlike an assignment, the policyholder still owns the policy. If the policy matures, the policyholder gives the discharge and not the nominee.

It is possible to have **with profit or participating** life insurance policy or **without profit or non-participating policy**. With profit policies have bonuses which are payable based on the insurer's profits. Without profit or nonparticipating policyholders do not receive any bonus; and premiums for such policies are lesser than the with profit policies.

If a policyholder chooses to terminate their policy before maturity of the policy or a death claim, they are said to **surrender** the policy. They will then receive an amount called the **surrender value.** This amount may be lesser than the premiums paid and differs among insurers.

Question 2

A policyholder transfers their rights under a policy to another person. This process is called _____________.

A. Nomination
B. Assignment
C. Surrender
D. Deferment

Terms that are specific to non-life insurance

A non-life policy requires renewal every year for it to remain valid; if it is not renewed the policy comes to an end. Unlike life insurance, the risk is reassessed at renewal time and the terms of the policy may be changed. With each renewal, there is a **new contract**.

Certificates of Insurance are issued for motor policies to provide evidence that the Motor Vehicles Act has been complied with. The Certificate of Insurance must be kept in the vehicle and produced when required by authorities.

If a policyholder has not had a claim and renews their policy, they may be given a No Claim Bonus. This is effectively either a discount on their premium or an increase in benefits (sum assured in mediclaim policies) and is offered as an incentive. If the policyholder has had a claim and it

exceeds a specified limit, the premium is increased. This increase or loading on the premium is called **Malus**.

If a policyholder suffers a loss and makes a claim on the insurance policy, they will need to bear / pay a deductible or excess. This amount is the portion of the claim which is not covered by the insurer. The term '**franchise'** denotes that one can only claim if the amount they are claiming exceeds a specified amount.

Deductible / Excess, however, is the amount that is deducted from the claim amount. A **franchise** is similar to an excess where the insurer will pay when the claim exceeds a specified amount. The difference between an excess and a **franchise** is that under a **franchise** if the claim exceeds the specified amount the entire amount is paid and not just the portion that exceeds the specified amount, which is the amount paid under **excess**.

There are different types of policies available depending upon the type of insurance. These are:

- ❖ **Valued policies**: also called **agreed value or admitted value** policies, where the insurer agrees to pay a certain amount in the event of a total loss without taking into account allowances for depreciation or appreciation. This is not relevant for partial losses.
- ❖ **Full value policies**: where the policyholder states that the sum assured is the true and full value of the subject matter of insurance. This type of policy can be used for household goods.
- ❖ **First loss policies**: these policies fix the sum assured as less than the full value as it is unlikely that the loss would be total. This can be used in burglary insurance.
- ❖ **Floater policies**: these policies are issued to cover fire risks on stock at different locations under one sum assured. The locations have to be clearly specified. These types of policies can be issued when the total value of the stock at all locations can be declared, but not the value at the separate locations.
- ❖ **Declaration policies**: in cases where there can be substantial fluctuations in stock or goods at a location, a **declaration** policy with provisional premium may be issued. The declarations, required to be made periodically, show the value of stock during the relevant period. The final premium on expiry of the policy is determined as the average of these declarations.

For marine insurance, the cover is provided as per the Institute Cargo and Hull clauses, drafted by the Institute of London Underwriters and used internationally.

If cargo is to be moved within the country, the inland transit clauses drafted by the erstwhile Tariff Advisory Committee (TAC) are used.

The types of policies available in the marine department are as follows:

- **A Specific Policy** is issued to cover a single consignment for a single transit.
- **Open policy is a contract** for a specific period of time, usually twelve months, and covers shipments as they are made when the consignments are reported to the insurer within a specified period of time by declarations. Terms are agreed and the final premium is settled at specified intervals based on declarations of quantities and other details of the shipment, every time a shipment is made.
- **Increased value policies** provide for increase in the value of goods due to the increase in market value of the goods, at destination. This type of policy applies to marine cargo insurance.
- **Duty Insurance** covers the custom duty paid, in case of loss to goods imported
- **Time or Voyage policies** are issued for hull insurance and are for a fixed term, generally twelve months, or a specific voyage.
- **Institute Cargo Clauses** are drafted by the Institute of London Underwriters and used internationally. These clauses are used in marine insurance when goods are being moved from one country to another, and clarify cover. If goods are being moved locally then local clauses are used.

When a loss occurs it can be either partial or total. There are two types of total losses.

- **Actual total loss** is where the subject matter of insurance is destroyed beyond repair. The insured is irretrievably deprived of the subject matter.
- **Constructive total loss** occurs when the actual loss appears inevitable or the prevention of the actual loss would require expenditure that would exceed the saved value of goods. Constructive loss is common in marine insurance, including air cargo. It may also occur in fire and motor policies where the cost of repair exceeds the value of the subject matter.

The **average clause** is used when an insured deliberately understates the value of the property insured and as a result, their contribution to the insurance pool is lower than the risk insured. So, in the event of a claim, the claim amount also would be reduced by the same proportion as the property value was understated. If the policyholder overstated the value the amount would not be increased.

General average is a loss caused by extraordinary sacrifice or expenditure voluntarily and reasonably made or incurred at the time of peril for the purpose of preserving the property. Examples would be cargo jettisoned (thrown off) a vessel in an attempt to refloat it or tugs employed to tow the vessel to safety.

Particular average loss is a partial loss caused by a peril insured against and is not a general average loss. The concepts of general average and partial average are terms used in marine insurance. The meaning of ‘average’ in marine insurance is ‘loss’. .

Whatever is recovered from a damaged property is called **salvage**. This happens when a claim is settled as a total loss. Some parts of the salvage might have some value for recycling etc. If so, the insurer may either sell the salvage themselves or return it to the policyholder and deduct that value from the claim payable.

Another way of settling a claim is using a **replacement**. This is where the lost property is replaced with a new one. Examples would be jewellery, where the value is difficult to assess, or shop windows which are unable to be repaired.

General Information: There are informal agreements known as Market Agreements, which exist between the four public sector insurers. These agreements are made so that insurers do not compete on premium for certain kinds of businesses and prevent unhealthy competition.

A **Solatium Fund** has been established by the Central Government. The Central and State Governments and the general insurers contribute to this fund and it is used to pay claims for third parties involved in accidents where the motor vehicle disappears after the accident and cannot be identified. These accidents are commonly referred to as **Hit and Run cases**. The common fund is managed by one of the insurers.

Where there are disputes under insurance policies, where liability is admitted but amount is disputed, they can go through a process of **arbitration** to resolve the issue without going to court. It is not a judicial process, and the arbitrators need not be formal judges or lawyers.

Arbitrators are appointed by the parties to the dispute. If there is only one arbitrator appointed, both parties must agree. If they cannot agree they will appoint one each and the two will select a third one making it a panel of 3. Arbitration is a quick and less expensive way of resolving disputes.

Incurred but not reported claims (**IBNR Claims**) are claims that occurred in a particular year but not reported to the insurer till the end of the year. These claims are accounted for in the year they occurred so an accurate estimation of claims and liabilities will be reflected.

When insurance is placed simultaneously with more than one insurer, it is called **coinsurance**. This happens in the case of large businesses. The insurance business is divided, with a lead insurer who negotiates the terms of the policy and then passes on the respective shares of premium to the other insurers.

Claims are settled between the insurers based on the proportion of the business they have. Coinsurance should not be confused with reinsurance. Coinsurance is done with the knowledge of the insured. Reinsurance is an arrangement between insurers at the discretion of the insurers; the insured may not even know that reinsurance is done.

A **co-payment or co-pay** is a term used in health insurance. It signifies that a certain amount will be paid by an insured for a medical service. It is like an 'excess' in any property insurance

Question 3

The amount an insured must bear in any claim / contribute to a claim before an insurer pays the remaining amount is called _________.

A Deduction
C Excess
B Franchise
D Malus

Summary

- ❖ Except for marine cargo insurance, all insurance transactions begin with a proposal.
- ❖ Insurance documentation given to an insured will include information detailing the subject matter of insurance, the sum assured, any endorsements, the term of the contract, exclusions and any conditions attached to the policy.
- ❖ Life insurance policies have options of limited payment where premiums are paid for a short period of time or single payment where the entire premium is paid at the start of the policy.

- Each renewal of a general insurance policy is a new contract and the terms and conditions may be changed at that time.
- Premium set aside to cover the cost of claims is called premium reserve.

Answers to Test Yourself

Answer to TY 1

The correct option is D.

The process of applying for insurance is called the proposal.

Answer to TY 2

The correct option is B.

The process of transferring your rights to a policy to another person is called assignment.

Answer to TY 3

The correct option is C.

The amount the insured contributes to the claim is called excess.

Self-Examination Questions

Question 1

IBNR claims are _________

A. Involved but not responsible
B. Incurred but not reported
C. Investigated but not reported
D. Incurred but not responsible

Question 2

The ratio that reflects the overall profitability of an insurance company is _______

A. Expense ratio
B. Operating ratio
C. Loss ratio
D. Combined ratio

Question 3

The person who assesses the risk associated with a proposal is ___________

A. Actuary
B. Underwriter
C. Arbitrator
D. Assessor

Question 4
In life insurance, the difference between the date a policy commences and the date the risk cover starts is called _________

A. Deferment period
B. Revival period
C. Default period
D. Nomination period

Question 5
Amendments to standard policy conditions are called ________

A. Exclusions
B. Conditions
C. Endorsements
D. Warranties

Answers to Self-Examination Questions

Answer to SEQ 1
The correct option is B.
IBNR claims are 'Incurred but not reported'.

Answer to SEQ 2
The correct answer is D.
The combined ratio reflects the overall profitability of an insurance company.

Answer to SEQ 3
The correct answer is B.
An underwriter assesses the risk of a proposal.

Answer to SEQ 4
The correct answer is A.
The period between the policy commencement date and the risk cover start date is the deferment period.

Answer to SEQ 5
The correct answer is C.
Amendments to the standard policy conditions are called endorsements.

CHAPTER 8

LIFE INSURANCE PRODUCTS

Chapter Introduction

This chapter deals with the Life insurance companies offer products which cover the risk of dying early or living too long. We will learn about products offered by life insurance companies which pay only on the death of the insured during the policy tenure (term plans) and products which pay only if the insured does not die during the policy tenure (pure endowment plans). Life insurance companies also offer a lot of other plans under various names which are a combination of the above two basic plans.

Traditional products offered by life insurance companies

Classification of insurance business

Insurance business in India is classified into life insurance and non-life insurance.

Insurance:

- Life insurance
- Non life insurance

Products offered by life insurance companies

Life insurance products are usually referred to as 'plans' of insurance. These plans have either or both of the two basic elements:

1. **Death benefit**: this is also known as '**death cover'**. It is payable on the death of the insured person during the tenure of the policy.
2. **Survival benefit**: this is also known as '**maturity benefit'**. It is payable on the maturity of the policy if the insured person survives the entire tenure of the policy.

DEFINITION:

Term Assurance Plan: insurance plans that provide only death cover are known as 'Term Assurance Plans'.

Pure Endowment Plan: insurance plans that provide only survival benefit are known as 'Pure Endowment Plans'.

EXAMPLE:

Term Assurance Plan: Wasim takes term insurance plan for a sum assured (death cover) of Rs. 50 lakhs for 25 years at an annual premium of Rs. 10,000. The policy specifies that if Wasim dies anytime during the 25 year tenure of the policy, the insurance company will pay the nominee / beneficiary the sum assured (death cover) of Rs. 50 lakhs.

Pure Endowment Plan: Ashok takes a pure endowment plan for a sum assured (survival benefit) of Rs. 50 lakhs for 25 years. The policy specifies that the survival benefit amount of Rs. 50 lakhs will be paid at the end of 25 years if Ashok survives the entire tenure of the policy.

In the first example that we have seen, the insurance company will pay death cover amount only if Wasim dies during the tenure of the policy. But what if Wasim does not die during the tenure of the policy? He will keep paying premiums for 25 years and will not get anything in the end.

In the second example, the insurance company will pay survival benefit only if Ashok survives the entire policy tenure of 25 years. But what if Ashok dies during the policy tenure, say in the 24th year? His nominee/ beneficiary will not get anything.

EXAMPLE:

Endowment Assurance

Wasim and Ashok can both go for an Endowment Assurance Plan for 25 years which will pay the nominee / beneficiary Rs. 50 Lakhs if the insured person dies during the tenure of the policy or pay Rs. 50 lakhs at the end of 25 years if the insured person survives the entire tenure of the policy.

This endowment assurance plan is nothing but a combination of the two plans:

1. one pure endowment plan which will pay Rs. 50 lakhs if the insured survives the entire tenure of the policy of 25 years; and
2. one term assurance plan which will pay Rs. 50 lakhs if the insured dies during the tenure of the policy.

Under such a plan the sum assured (SA) is paid on survival of the specified period or on death, if it happens earlier.

Whole Life Policy: a term assurance plan with an unspecified period is called a 'Whole Life Policy'. This policy can extend even up to the age of

100 years of the insured person. Under this policy, the sum assured is paid on the death of the policyholder, whenever it happens.

Money Back Policy: it is a combination of a term assurance plan and multiple pure endowment plans.

> **EXAMPLE:**
> Rajesh has bought a Money Back Policy with a sum assured of Rs. 2,00,000 for a tenure of 20 years. The policy specifies a payment of 20% of the sum assured every 5 years and 40% on the maturity of the policy. If Rajesh dies anytime during the policy period, then the insurance company, along with the payments made till that date, will pay the sum assured of Rs. 2,00,000 and the policy will be closed.
> This policy offered by the insurance company to Rajesh is effectively a combination of 5 plans:
> 1. Three pure endowment plans which promise to pay Rs. 40,000 each at the end of 5 years, 10 years and 15 years respectively.
> 2. One pure endowment plan which promises to pay Rs. 80,000 at the end of 20 years.
> 3. One term assurance plan which promises to pay Rs. 2,00,000 if Rajesh dies anytime during the tenure of the policy (20 years).

Types of Life Insurance Plans

- Term assurance plan
  - Whole life policy
  - Money-back policy
  - Endowment assurance policy
- Pure endowment plan
  - Whole life policy
  - Money-back policy
  - Endowment assurance policy

Features of a Traditional Plan

A traditional plan has a set of features. By making certain changes in these features or adding and combining some of them, any number of plans can be developed.

Features of a Traditional Plan	
Feature	**Description**
Life Insured	The life insured person can be an individual adult, minor or two or more people, jointly, under one policy.
Minimum / Maximum Sum Assured	Most of the plans stipulate a minimum sum assured amount. Some plans specify a maximum sum assured also. Some plans don't specify any maximum sum assured, but this is subject to underwriting. There can be limits on riders also.
Sum Assured Payment	The plan specifies when the liability will arise on the insurer to make a payment. This can be on death of the life insured, on maturity of the plan, some contingency stipulated in the riders or on some other date. The plan also specifies whether the SA payment will be made lump sum or in installments.
Minimum / Maximum Entry Age	The plan specifies the minimum and maximum entry age. Most plans also specify the maximum maturity age while whole life plans go on till the life insured survives.
Minimum Premium Amount	Some plans specify the minimum annual premium or the minimum installment premium. Plan Tenure The plan specifies the minimum and the maximum policy tenure (duration). Whole life plans go on till the life insured survives. Some plans provide benefits even beyond the policy term.
Premium Payment Frequency	The plan specifies the options available for premium payment frequency. The options can be monthly, quarterly, half yearly, yearly or a single premium. Some plans provide for premiums to be paid for a period less than the term.
SA Step-Up / Step-Down Option	Some plans provide the option of increasing the SA during important events like marriage, purchase of a house, childbirth or certain policy anniversaries. This happens due to participation in surpluses and bonus additions or due to guaranteed increases Some plans also provide the option of reducing the SA during events like reduction of liabilities under a mortgage,

	achievement of certain milestones / objectives or certain policy anniversaries.
Riders	Some plans offer additional or supplementary benefits by way of riders in addition to the basic cover.

Question 1

Rajesh has taken an insurance plan for a sum assured of Rs. 20 lakhs for a tenure of 20 years. The plan specifies that the sum assured will be paid only if Rajesh does not die during the policy tenure of 20 years. Which type of plan has Rajesh opted for?

A. Term Assurance Plan
B. Pure Endowment Plan
C. Double Endowment Plan
D. Endowment Assurance Plan

The features of linked policies

Unit Linked Insurance Plans (ULIPs)

A unit linked insurance plan (ULIP) is an insurance plan which is a combination of insurance protection and investment.

A ULIP can be an ideal investment vehicle for people who are looking for the triple benefits of:

1. insurance protection;
2. investment; and
3. income tax benefits.

Choice of Funds

The policyholder can select from various funds available to invest their premium.

Equity Fund	Debt Fund	Balanced Fund	Money Market Fund
This fund invests major portion of the money in equity and equity related instruments.	This fund invests major portion of the money in fixed income securities e.g. Government Bonds, Corporate	This fund invests a major portion of the money in a mix of equity and debt instruments.	This fund invests a major portion of the money in instruments such as Treasury Bills, Certificates of Deposit,

	Bonds, Fixed Deposits etc.		Commercial Paper etc.
The fund may invest 65% or more in equity and some portion in debt, money market, or hold cash.	The fund may invest 75% to 100% in debt instruments and some portion in the money market, or hold cash.	The equity to debt mix may be in the ratio of 50:50 or 60:40 or 40:60. The fund may invest some portion in the money market or hold cash.	The fund may invest 75% to 100% in money market instruments and hold some portion of the money in cash.
This fund is for those investors who are willing to take high risk and are looking for high returns.	This fund is for those investors who don't want to take high risk and are satisfied with low returns.	This fund is for those investors who are willing to take moderate risk and are looking for moderate returns.	This fund is for those investors who want to preserve their capital and are satisfied with low returns.

These are the basic funds offered by insurance companies. They may offer the investor a choice of more funds to select from, which may be variants or combinations of the above four funds. Insurance companies have different names for these funds e.g. Growth Fund, Balanced Fund, Protector Fund, Preserver Fund, Maximiser, Multiplier, Gilt Fund, Enhancer, Dynamic Fund, SectoralFund, Conservative Fund, Growth Super, Builder, Value Fund etc.

Claim Settlement

A ULIP is effectively a combination of two plans. One plan covers the risk of providing protection to the life insured. The second plan acts like a mutual fund where the life insured can make regular investments. On maturity of the plan the fund value is paid. On death of the life insured during the tenure of the policy either the sum assured (along with bonus) or the fund value, whichever is higher, is paid. Some insurance companies have the provision to pay both.

Switching and Redirection

The life insured can transfer their existing investments from one fund to another during the tenure of the policy. This process is known as 'Switching'. The life insured also has the option to invest their new premium money (after deductions) in a fund other than the fund which has their existing investments. This process is known as redirection.

In a ULIP, the policyholder chooses the fund in which the money is to be invested. So the risk of investment is borne by the policyholder and not the insurance company. In ULIPs, sometimes there is a risk of capital loss as financial markets are exposed to price fluctuations.

Question 2

In the case of a ULIP which fund invests a major portion of its funds in Government bonds and securities?

A. Balanced Fund
B. Money Market Fund
C. Debt Fund
D. Equity Fund

The features of annuities and group policies

Annuities

Annuities cover the risk of living too long. These are periodic payments made to an individual in consideration of a lump sum paid to the insurer before the commencement of annuity payments. Annuities work in the reverse way as compared to insurance. In insurance the life insured pays premium installments to insurer to get back a lump sum at the end of a term or on happening of the insured event, while in an annuity contract, the person pays a lump sum amount to the insurance company who invests this amount on behalf of the policyholder and then makes regular payments to the policyholder from the returns earned on the amount invested.

Features of Annuities

a) Immediate annuity: in this type of contract, the annuitant makes a lump sum payment to the insurance company and the insurance company starts paying annuities (periodic payments) soon after the policy commences.

b) Deferred annuity: here, the annuity payments start after a specified period. This time period is known as the **deferment period**. In deferred annuities there are two scenarios. In the first scenario the annuitant

makes a lump sum payment and the insurance company starts paying annuities after a specified period. In the second scenario, the annuitant keeps making periodic payments to the insurance company for a specified period and the annuity payments start after the deferment period.

c) Frequency of annuities: the plans offered by insurance companies give the annuitant the option to receive the annuity payments monthly, quarterly, half-yearly or annually.

d) Policy tenure: the annuities may continue:

i. as long as the annuitant lives; or

ii. for a minimum specified period and thereafter till the annuitant lives; or

iii. till the last person among the joint annuitants dies.

Group Policies

Group policies offer benefits to large number of persons through one policy. This single policy covering multiple people is known as the Master Policy. It is issued in favour of the person representing the group of beneficiaries. Group policies can be issued to:

a. employers representing companies / organisations

b. professional associations representing a group such as an association of lawyers

c. trade unions

d. banks for their loan accountholders

e. any other professional organisation representing a group of people brought together for a common objective

Group Insurance Policy:

- Home loans
- Car loans
- Personal loans
- Education loans
- Credit cards

In a group policy, the benefits for the members of the group are decided on a uniform basis. Individuals will not have the option of choosing what the benefit should be, such as, the coverage amount and the various facilities that come with the master policy.

Innovative Plans

The insurance industry is constantly evolving and coming out with new products to cater to the ever changing needs of the society.

- In 2005, the IRDA allowed micro-insurance to be offered by both life and non-life insurance companies with mutual collaboration.
- Some insurance companies are also offering health insurance plans in the form of ULIPs wherein the insured can contribute premiums towards investment in funds during the initial years of the plan and accumulate a corpus which can come in handy during old age.
- Many insurance companies have come out with guaranteed unit linked life insurance plans. In such ULIPs, the highest NAV is guaranteed by the insurance company.
- Many life insurance companies are also offering term plans and ULIPs online, through the internet, thereby eliminating the agents. The commission thus saved by selling plans directly to the end customer is passed on to them in the form of lower premiums.

Question 3

In which type of contract, the annuitant makes a lump sum payment to the insurance company and the insurance company starts paying annuities (periodic payments) soon after the policy commences?

A Immediate Annuity
C Lumpsum Annuity
B Deferred Annuity
D Any of the above

Summary

- When it comes to buying insurance, selecting the correct product / plan is very important.
- Insurance is broadly classified into life insurance and non-life insurance.
- Two most basic plans offered by life insurance companies are: Term Assurance Plan which pays only if the life insured dies during the tenure of the policy and Pure Endowment Plan which pays only if the life insured does not die during the tenure of the policy. Most of the traditional plans offered by life insurance companies are a combination of these two basic plans.
- A ULIP is an insurance plan which is a combination of insurance protection and investment.

- ❖ An annuity is an insurance plan which makes periodic payments (annuities) to the life insured.
- ❖ Group insurance policies offer insurance cover to a group of people who are brought together for a common goal or objective.

Answers to Test Yourself

Answer to TY 1

The correct option is B.

Pure Endowment Plans pay the sum assured on maturity of the policy only if the life insured does not die during the tenure of the policy.

Answer to TY 2

The correct option is C.

A debt fund invests a major portion of its funds in Government bonds and securities, corporate bonds, bank fixed deposits etc.

Answer to TY 3

The correct option is A.

In an immediate annuity contract the annuitant makes a lump sum payment to the insurance company and the insurance company starts paying annuities (periodic payments) soon after the policy commences

Self-Examination Questions

Question 1

Raj has taken a life insurance policy for a sum assured of Rs. 25 lakhs for 25 years. The policy terms specify that the policy amount will be paid only if Raj does not survive the tenure of the policy. Which type of policy has Raj taken?

A. Pure Endowment Policy
B. Term Assurance Policy
C. Endowment Assurance Policy
D. None of the above

Question 2

In an insurance policy 'Maturity Benefit' is also known as __________

A. Death Benefit
B. Survival Benefit
C. Death Cover
D. None of the above

Question 3

Rajesh has bought a money back policy with a sum assured of Rs. 2,00,000 for a tenure of 20 years. The policy specifies a payment of 20% of the sum assured every 5 years and 40% on the maturity of the policy. If Rajesh dies anytime during the policy term then the insurance company, along with the payments made till that date, will pay the sum assured of Rs. 2,00,000 and the policy will be closed. The money back policy bought by Rajesh is a combination of which of the below plans?

A 4 pure endowment plans of 5, 10, 15 and 20 years and 1 term assurance plan of 20 years

B 4 endowment assurance plans for 5,10, 15 and 20 years and 1 term assurance plan of 20 years

C 4 term assurance plans of 5,10, 15 and 20 years and 1 pure endowment plan of 20 years

D 4 endowment assurance plans for 5, 10, 15 and 20 years and 1 pure endowment plan of 20 years

Question 4

With respect to life cover of some life insurance plans offered by insurance companies, which of the below is possible as an option?

A The life cover always remains constant throughout the policy and cannot be stepped up or stepped down during the tenure of the policy.

B The life cover can only be stepped up or kept constant but cannot be stepped down during the tenure of the policy.

C The life cover can only be stepped down or kept constant but cannot be stepped up during the tenure of the policy.

D The life cover can be kept constant or stepped up or stepped down during the tenure of the policy.

Answer to Self-Examination Questions

Answer 1

The correct option is B.

In a Term Assurance Policy the insurance company pays the sum assured only if the policyholder dies during the tenure of the policy.

Answer 2

The correct answer is B.

In an insurance policy, 'Maturity Benefit' is also known as 'Survival Benefit'.

Answer 3

The correct answer is A.

Rajesh has bought a money back policy which is a combination of the below 5 plans:

1. 3 pure endowment plans which promise to pay Rs. 40,000 each at the end of 5 years, 10 years and 15 years respectively.
2. 1 pure endowment plan which promises to pay Rs. 80,000 at the end of 20 years.
3. 1 term assurance plan which promises to pay Rs. 2,00,000 if Rajesh dies anytime during the tenure of the policy (20 years).

Answer 4

The correct answer is D.

In some life insurance plans the life insured can optionally step up, step down or keep the life cover constant during the tenure of the policy.

CHAPTER 9

GENERAL INSURANCE PRODUCTS

Non-life companies offer products which safeguard the asset owner against various perils such as fire, earthquake, floods, storms etc. Non-life insurance companies also offer products which protect the insured against financial losses due to accidents and hospitalisation. We will learn about all these products and other products offered by insurance companies in this chapter.

The products offered by non-life insurance companies

Non-life insurance companies provide products that protect the policyholder against financial losses due to various perils such as fire, earthquakes, floods, storms, accidents etc. As per the Insurance Act 1938, non-life products are bifurcated into three major categories - Fire, Marine and Miscellaneous. All the insurances which do not fit into fire or marine category fall into the miscellaneous category.

In earlier times, fire and marine were the major type of insurances. Today, the biggest group is 'motor' followed by 'health' insurance.

Non life insurance

- Marine insurance
  - Marine cargo
  - Marine Hull
- Fire insurance
- Miscellaneous
  - Fidelity guarantee
  - Overseas medical insurance
  - Workmen compensation
  - Engineering insurance
  - Aviation insurance
  - Other miscellaneous
  - Motor insurance
  - Personal accident insurance
  - Health insurance
  - Liability insurance

The features of fire insurance and marine insurance products

Fire Insurance

Fire insurance policies provide cover for financial losses due to damage to property arising out of fire, explosions etc. Fire policies may also cover damage through impact of vehicles, riots, typhoons, cyclones, strike or other malicious acts etc.

The basic cover may be extended to cover things like:

- ❖ professional fees for architect and consulting engineer
- ❖ deterioration of stocks in refrigerated warehouses due to power failure
- ❖ leakage and contamination
- ❖ loss of rent
- ❖ start-up expenses

Only items that are specifically included will be paid for by the insurance company. Exclusions are mentioned for avoiding any disputes in future.

Loss of Business / Income

Fire insurance policies may have a provision to provide for ‘loss of profits’. Under this provision, the insurer provides compensation for loss of business and consequential loss of profits due to fire, till normalcy is restored. The period for which this compensation is to be provided is chosen at the commencement of the policy. This period usually varies between three months to three years. Unless and until a claim becomes admissible under a material damage fire policy, the corresponding loss of profits policy will not pay. ‘Loss of profits’ as a result of market fluctuations is not insurable.

Marine Insurance

Marine insurance comprises marine cargo insurance and marine hull insurance.

Marine Cargo Insurance	Marine Hull Insurance
Cargo insurance provides cover for goods in transit by sea, air, rail, road or by post. Export/ import shipments are covered against the risk of fire or explosion, stranding	Hull insurance covers loss or damage to ocean going ships and other vessels such as fishing vessels, sailing vessels etc. Risks covered include maritime perils,

of vessel, theft, pilferage, loss of package during loading and unloading etc.	fire, explosion, piracy, accidents in loading and discharging of cargo etc.
War, strikes, riots and civil commotions can be added at extra premium.	War and strikes are covered under the Government of India War and Risks Scheme, which is a voluntary scheme for the ship owners.
Inland transit policies by rail / road cover the risk of fire, breakage of bridges, derailment, etc. These policies cover the risk during the duration of transit only.	Hull policies are generally issued for a period of twelve months. However, they can also be insured on voyage basis where a single voyage is sought to be covered.
Export / import shipments are covered under the terms of `Institute Cargo Clauses of Institutes of London Underwriters, according to international practice. Local clauses are used for inland transit policies.	Cover provided is under the terms of the Institute Time Clauses (Hull) or Institute Voyage Clauses (Hulls) formulated by the Institute of London Underwriters, which are used internationally.

Various insurance products offered under miscellaneous category

DEFINITION: Motor insurance is the biggest portfolio in the miscellaneous class of insurance. Motor insurance deals with insurance of motorised vehicles on road, whether used for private comfort or public service, whether carrying passengers or goods. As per Motor Vehicles Act, every vehicle plying on Indian roads should be insured for Liability to Third Parties including property damage.

Motor insurance may cover:

a. damage to vehicles;
b. injury or death of persons; and
c. damage to property belonging to third parties.

Premium will depend on specifications of vehicle as well as on usage. Restrictions may relate to:

a. areas in which the vehicle may be used
b. the nature of usage (private or public usage)

c. adherence to laws (relating to driver needing a licence, permitted load) etc. (Premium does not depend on this factor)

Third party insurance, also called Liability Only policies, is compulsory under the law.

Personal Accident Insurance

Definition: Personal Accident policies cover death or disablement arising out of accidents of any kind (caused by external, violent and visible means).

In the case of personal accident policies, there is no need for assessment of risk, except on the factor of occupation. The conditions are standard. The policy can also cover consequential costs medical care and loss of income due to disability leading to absence from workplace.

Health Insurance

In the Indian market, health insurance premium has been steadily increasing over the years (and now it is next to motor premium), comprising 22% of the Gross Direct Premium Income of General Insurers.

Cashless Treatment

Health insurance covers treatment costs which require hospitalisation (including domiciliary treatment). Health insurance claims are now being serviced by a network of Third Party Administrators (TPA) who have been licensed by IRDA. TPAs tie up with hospitals across the country and include them in their network. Insurance companies issue cashless cards to the insured which does not require them to pay for treatment (allowed costs) when admitted to one of the network hospitals. If the insured gets admitted to a non-network hospital then they have to pay the hospital bill and claim the amount from the insurance company on a reimbursement basis.

Healthcare policies are available in three variants:

1. Individual Policy: this type of health insurance policy caters to the medical needs of only one individual.

For example, Ram has taken a health insurance policy from Company ABC for a sum insured of Rs. 2,00,000 by paying a premium of Rs. 4,000. Under this policy, Ram will be covered against expenses for any

illness (covered as per the policy terms) which requires him to be hospitalised, up to a limit of Rs. 2,00,000 in that particular year.

2. Family Floater Policy: this type of health insurance policy caters to the medical needs of a family. In family floater policies, normally insurance companies allow coverage for up to two adults and two children in a family. The sum insured can be shared by the family members covered in the policy. There are no fixed proportions in which the sum insured is shared by the family members.

3. Group Policy: this type of health insurance policy caters to the medical needs of a group of people brought together for a common objective or purpose. As per General Insurance Corporation Directives, the group should have a common purpose other than insurance. The principle of 'All or None' applies. That is, if the group needs to be covered, all the members of the group are to be covered. No selection will be allowed.

Healthcare policies normally have some exclusions such as dental treatment, diagnostic tests, expenses on vitamins, cosmetic treatment, homeopathic treatment etc. These policies also, exclude treatment for diseases prevalent at the time of taking the policy for the first time known as 'pre-existing diseases' or contracted within 30 days of such commencement. In the Indian market, companies cover pre-existing diseases after a continuous cover for a period of 48 months.

Liability Insurance

Liability insurance provides indemnity (protection against financial loss payable under law) for injuries to third parties or their property. The policy covers indemnity for professionals providing services such as doctors lawyers, accountants, engineers, etc. These professionals run the risk of being charged with negligence and subsequent liability for damages. Liability Insurance can be broadly categorised into Public Liability, (Industrial and Non-Industrial), Product Liability, Professional Indemnity, and Errors & Omissions Policy. While the first three cover death/disablement due to the insured's negligence, Errors & Omissions policies cover financial loss due to negligent actions of professionals like Chartered Accountants, Surgeons, Engineers etc.

The amounts claimed in damages can be fairly large and beyond the capacity of an individual to bear. These risks are insurable by way of

professional liability insurance products. Liability insurance policies also cover product and public liability for industrial and non-industrial risks. The cover excludes liabilities arising out of willful non-compliance with statutory provisions and also fines and other punitive levies.

Miscellaneous

a. **Fidelity Guarantee**: fidelity guarantee covers risks related to dishonesty, fraud and embezzlement by employees etc. and protects employers from loss of cash and securities.
b. **Overseas Medical Insurance**: the policy covers medical expenses incurred while travelling abroad. Hospital bills are paid by the insurer's representatives directly. The policy also covers loss of baggage or passport during overseas travel. This policy is meant for Indian residents travelling abroad for specified purposes like business, studies, holiday or employment.
c. **Workmen's Compensation Insurance**: this covers the compensation that is to be paid by the employer to the employee for death or disablement or injuries, as per the Workmen's Compensation Act 1926, for accidents while at work.
d. **Engineering Insurance**: this includes several kinds of risk covers like risk cover for contractors in civil engineering projects, erection of electrical plants, breakdown of machinery and its consequential loss of profits etc. Delay in Start Up of Projects is also covered in this sub branch of miscellaneous insurance.
e. **Boiler and Pressure Plant**: these policies cover damage (other than by fire) caused by explosions (boilers or pressure plants) to the plant, to surrounding property of the insured and to third parties. (This is part of Engineering Insurance)
f. **Aviation Insurance**: it covers damage to aircraft and liabilities to freight, passengers and third parties. Aviation insurance contracts are finalised after considerable negotiation on premium rates and are reinsured.
g. **Industrial All Risks, Oil and Gas, Satellite**: these are specialized insurances. Industrial All Risks policy is a package policy, which covers fire, burglary, machinery breakdown, business interruption or a combination of these.
h. **Other miscellaneous insurances**: these include burglary, loss of baggage during travel, householder effects, shopkeeper's business,

bankers' indemnity, horses, bees, cattle, poultry, plantations etc. Event insurances and other specialised insurances like identity theft cover (loss of credit card, pan card etc. and losses thereof are being given today.

Innovative Plans

The insurance industry is constantly evolving and coming out with new products to cater to the ever changing needs of the society.

- ❖ Some health insurance companies have come out with lifelong renewal health insurance plans.
- ❖ Some health insurance companies also offer the option of additional sum assured only for critical illnesses over and above the normal sum assured just like a rider in a life insurance policy.
- ❖ Some companies also offer insurance for misuse of credit card after theft up to a certain number of days after the theft is reported.
- ❖ Some health insurance companies also offer a fixed daily cash amount when the insured person is hospitalised. The daily amount is fixed irrespective of the cost of treatment. The amount per day may be different for normal hospitalisation, ICU admission and critical illness treatment.

Question 1

Motor insurance covers which of the following?

A Damage to car only
B Damage to individual
C Damage to property belonging to third parties
D All of the above
E None of the above

Summary

- ❖ Non-life insurance products are bifurcated into three major categories - Fire, Marine and Miscellaneous
- ❖ Miscellaneous category includes motor, health, personal accident, liability insurance and various other products.
- ❖ Marine insurance is further classified into marine cargo insurance and marine hull insurance
- ❖ Motor insurance may cover damage to vehicles, injury or death of persons and damage to property belonging to third parties.

- ❖ Personal Accident policies cover death or disablement arising out of accidents of any kind (caused by external, violent and visible means).
- ❖ Healthcare policies are available in three variants: individual health policy, group health insurance policy and family floater policy.

Answers to Test Yourself

Answer to TY 1

The correct option is D.

Motor insurance covers damage to car, individual and property belonging to third parties.

Self-Examination Questions

Question 1

Arjun has taken a common health insurance policy for himself and his spouse. Which type of policy is this?

A Joint Policy
B Family Floater Policy
C Group Policy
D Any of the above
E None of the above

Question 2

A person would like to cover his stocks which he fears may be stolen. Which policy should he take?

A Fire Policy
B Liability Policy
C Burglary Policy
D Fidelity Guarantee Policy

Question 3

A Person would like to buy a car. Which is the insurance he should compulsorily take before bringing the car to the road?

A Personal Accident cover
B Third Party Motor Liability Insurance
C Burglary Insurance
D Motor Own Damage cover only

Answer to Self-Examination Questions

Answer 1

The correct answer is B.

A health insurance policy taken jointly by family members is known as a Family Floater Policy.

Answer 2
The correct answer is C
A person would like to cover his stocks which he fears may be stolen. He should take 'Burglary Insurance'
Answer 3
The correct answer B
A Person wishing to buy a car should take Third Party Motor Liability Insurance before bringing the car to the road.

GLOSSARY (Chapter 6 - 9)

- Ombudsman
- Surveyors & Loss Assessors
- IRDA
- Third Party Administrators
- Cashless
- Tariff Advisory Committee (TAC)
- Agent
- Broker
- Friendly Societies
- General Average
- Particular Average
- Probable Minimum Loss
- Hedging
- Diversification
- Business enterprises
- Risk recognition
- Risk Evaluation
- Indian Contract Act, 1972
- The Indian Registration Act 1908
- IRDA Act, 1999
- The Indian Registration Act 1881
- The Insurance Act, 1928
- Sales of Goods Act 1930
- Negotiable Instruments Act, 1881
- Total gross direct business
- Keyman Policy
- General Insurance Council
- Life Insurance Council
- Cognitive Dissonance
- Nuances of Insurance
- Internal customer
- Tangible goods
- Claimant
- Intermediaries
- Ethics in business

PRACTICE QUESTION SET - II

1. In the insurance context 'risk' means
a) Possibility of loss or damage
b) Loss producing event
c) Property covered by insurance
d) All the above

2. Which of the following statements is true?
a) Insurance protects the asset
b) Insurance prevents its loss
c) Insurance Reduces possibilities of loss
d) Insurance pays when there is loss of asset

3. Which of the following statements is true?
1. Insurance provides direct benefits to individuals
2. Insurance provides indirect benefits to the community
a) Only Statement 1
b) Only Statement 2
c) Both Statements
d) Neither of the Statements

4. Which of the following is not the correct reason? Insurer requires material information –
a) To decide about acceptance
b) To fix the rate of premium
c) To fix the sum insured
d) To fix terms and conditions of cover

5. Which of the following are material facts? The fact that previous insurers –
a) Had rejected the proposal
b) Charged extra premium
c) Had refused to renew the policy
d) All three a, b & c

6. Which of the following statements is correct? The duty of disclosure of material facts.
1. Ceases when the policy is issued
2. Arises again at the time of renewal of the policy
a) 1 is correct
b) 2 is correct
c) Both are correct
d) Both are incorrect

7. The duty of disclosure of material information
a) Applies to insured
b) Applies to agents
c) Applies to the insurer
d) All three

8. If there is no insurable interest the insurance contract becomes
a) Unenforceable in a Court of Law
b) Illegal
c) Void
d) Voidable

9. The object of the principle of indemnity is to
a) Pay the full cost of repairs
b) Pay the full cost of replacement
c) Pay the cost of reinstatement
d) Prevent the insured from making any profit out of his loss

10. Agreed Value Policies are issued for
a) Marine cargo
b) Marine hull
c) Marine cargo and hull
d) Fire insurance on high valued machinery

11. Which of the following can be granted valued policies in fire insurances?
a) Curious
b) Works of art
c) Obsolete machinery
d) All three

12. Which of the following ensure that the amount of claim payable is less than the actual amount of loss?
a) Pro-rata average
b) Excess limit
c) Salvage
d) All three

13. Subrogation condition does not appear in
a) Fire policy
b) Marine cargo policy
c) Burglary Policy
d) Baggage policy

14. Proximate cause has to be selected
a) When two or more causes operate simultaneously
b) When two or more causes operate one after another
c) When insured peril and excluded peril operate together
d) All three above

15. If an insurance policy is not stamped as per Indian Stamp Act, the contract becomes
a) Illegal
b) Void
c) Voidable
d) Unenforceable in a Court of Law

16. If there is a non-disclosure of a material fact due to oversight, the insurance contract becomes
a) Void
b) Voidable
c) Illegal
d) Invalid

17. The principle of utmost good faith requires the proposer to disclose material facts
a) Which he knows
b) Which he ought to know
c) Which he knows and ought to know
d) None of the above

18. Which of the following statements is true?
1. The proposer need not disclose facts which he considers as not material
2. Facts which are of common knowledge need not be disclosed.
a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

19. Which of the following principles prevents an insured from making a profit out of his loss?
a) Proximate cause
b) Pro-rata average
c) Indemnity
d) Insurable interest

20. In which of the following insurances, the principle of indemnity is modified
a) Public liability
b) Fidelity guarantee
c) Marine cargo
d) Baggage insurance

21. An insured cannot recover more than his actual loss because of
a) Under insurance
b) Excess clause
c) Principle of indemnity
d) Franchise clause

22. In which of the following policies, the principle of indemnity is modified.
a) Fire declaration policy
b) Fire floating policy
c) Fire reinstatement policy
d) Fire loss of profits policy

23. Under which of the following clauses the insured has to bear a part of the loss?
a) Pro-rata average
b) Franchise clause
c) Excess clause
d) All the above clauses

24. The principle of Subrogation applies under
a) Products liability policy
b) Fidelity guarantee policy
c) Fire policy
d) All of the above

25. A per the IRDA Regulations in which of the following insurance written proposal is not necessary
a) Fire insurance on Cargo industrial risks
b) Marine cargo insurance
c) Compulsory public liability
d) Fidelity guarantees

26. Which of the following questions is common to all proposal forms?
a) Proposer's previous insurance
b) Proposer's prevent insurance
c) Past losses
d) All the above

27. If a warranty is breached the policy becomes
a) Void
b) Voidable
c) Invalid
d) Unenforceable in a Court of Law

28. Certificates of insurance are issued in
a) Marine hull insurance
b) Marine cargo insurance
c) Engineering insurance
d) Workmen's compensation insurance

29. In motor insurance Certificates of insurance are issued because
a) Make of vehicle is not known
b) Year of manufacture is not known
c) Seating capacity is not known
d) It is required by the Motor Vehicles Act

30. Which of the following statements is true?
1. Endorsements are issued at the time of issuing the policy as part of the policy
2. Endorsements are issued after the policy to record alterations
a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

31. Which of the following is paid out of 'Pure Premium?'
a) Losses
b) Agency commission
c) Expenses of management
d) Unexpected heavy losses

32. Rate of premium is based on
a) Degree of hazard
b) Variations in degree of hazard
c) Past loss experience
d) All the above

33. To arrive at final rate by loading the pure rate, which of the following is not taken into account
a) Past losses
b) Unexpected heavy losses in the future
c) Margin for expenses of management
d) Margin for profits

34. Final rate of premium is arrived at by loading the pure rate of premium to provide for
a) Commission to intermediaries
b) Expenses of management
c) Margin for profit
d) All the three

35. After withdrawal of Tariffs w.e.f. 1.1.2007, insurers cannot charge their own rates for which of the following classes of insurance
a) Fire insurance
b) Engineering insurance
c) Motor third party insurance
d) Workmen's compensation insurance

36. Which of the following statements is true?
1. Insurers charge for Motor Third party policies rates of premium fixed by IRDA
2. Insurers can charge higher rates based on their own past loss experience
a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

37. Which of the following statements is true under Code of conduct for Agents?
1. The Agent must disclose the licence to the prospect on demand
2. The agent must disclose the scales of commission under policies offered for sale, if asked by the prospect.
a) Only 1
b) Only2
c) Both are true
d) Both are false

38. An insurance agent whose licence has been cancelled by the designated person cannot apply for fresh licence unless a period of _______years has elapsed from the date of such cancellation.
a) 3 years
b) 4 years
c) 5 years
d) 6 years

39. Micro-insurance agent under the IRDA Regulations means
a) A non-government organization
b) A self help group
c) A micro finance group
d) All the above

40. Which of the following are allowed under the regulations to distribute micro insurance products?
a) Individual agents
b) Corporate agents
c) Brokers
d) All the above

41. Which of the following statements is true?
1. Code of conduct regulations apply to micro insurance agents
2. Advertisements regulations apply to micro insurance agents
a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

42. An appeal against the order of the National Commission can be made within a period of __ days from the date of order

a) 30 days
b) 45 days
c) 60 days
d) 90 days

43. Which of the following statements is true?
1. Redressal of Public Grievances Rules apply to life and general insurance
2. These rules apply to personal lines insurance only

a) 1 is true
b) 2 is true
c) Both are true
d) Both are false

44. No complaints to the Ombudsman shall lie

a) If the complaint is made later than 1 year after insurer had rejected representation
b) If the complaint is pending in any Consumer Forum
c) If the complaint is subject of arbitration
d) All the above

45. Which of the following are grounds for filing a complaint to the Ombudsman?

a) Insurer had rejected the complaint
b) Complainant had not received any reply to his written representation to the insurer within one month after receipt of complaint
c) The complainant is not satisfied with the insurer's reply
d) All the above

46. The term Fire under the fire policy means

a) Natural heating
b) Burning by order of public authority
c) Spontaneous combustion
d) Accidental ignition

47. Which if the following is not covered under fire floating policy?

a) Stocks in process blocks
b) Stocks in godowns
c) Stocks in open
d) Stocks in transit

48. Where there is frequent fluctuations in stocks/ stock values, which of the following provide suitable cover?

a) Fire floating policy
b) Fire policy with Escalation clause
c) Fire Reinstatement Value policy
d) Fire Declaration policy

49. The minimum retention of premium under fire declaration policy is ___% of the annual premium.

a) 10%
b) 25%
c) 50%
d) 75%

50. Sum insured (provisional) under fire declaration policy is Rs.100, 00, 000/-. Rate of premium is Re.1.00 per mile. Average sum insured is Rs.50, 00, 000. The refund premium is

a) Rs.5, 000
b) Rs.6, 000
c) Rs.10, 000
d) Nil

51. Fire reinstatement value policy is not issued in respect of______.

a) Building
b) Plant
c) Machinery
d) Stock

52. Under which of the following circumstances market value only is payable under Fire reinstatement value policy.

a) Insured is unwilling to reinstate
b) Heavy under insurance
c) Breach of warranty
d) Breach of utmost good faith.

53. Under which of the following circumstances reinstatement basis of settlement will not apply under Fire reinstatement value policy.

a) Insured fails to intimate to the issuer within 6 months or any extended time to replace the damaged property.
b) Insured is unable to replace the damaged property
c) Insured is unwilling to replace the damaged property
d) All of the three

54. Fire Consequential loss policy pays he insured

a) Net profit
b) Standing charges
c) Increased cost of working
d) All of the above three

55. Gross profit, in the context of consequential loss (fire) policy means:
a) Turnover minus variable and standing charges
b) Net profit and cost of production
c) Net profit and standing charges
d) Net profit and variable charges

56. The Bill of Lading Act 1855 lays down the loss which help to determine title and liability –
a) While settling claims on marine cargo
b) While settling Premiums on marine cargo
c) While Deciding on the amount on marine cargo
d) Of the insurer in respect of the crew

57. What amount is available for deduction of health insurance
a) Rs.15000 for self mediclaim
b) Additional Rs.15000 for dependant parents
c) Rs.25000
d) Rs.30000
e) a and b above

58. Which act deals with matter relating to disputes arising on agreement to sell?
a) Indian Partnership Act, 1932
b) Negotiable Instruments Act, 1881
c) The Indian Registration Act 1881
d) The Insurance Act, 1928
e) Sales of Goods Act 1930

59. Which act provides for registration of documents and deeds
a) Indian Partnership Act, 1972
b) Indian Contract Act, 1972
c) The Indian Registration Act 1908
d) The Insurance Act, 1928
e) IRDA Act, 1999

60. Commuted value of pension are
a) Taxable
b) Exempt
c) Subject to income tax
d) 20% tax
e) 25% tax

61. Income Tax has to be paid under policy claims or surrender of policy subject to a ___________

a) Premium not more than 20% of sum assured
b) Premium more than 20% of sum assured
c) Claim not more than 20% of sum assured
d) Claim not more than 20% of sum assured

62. What is the name of the councils, which acts as a forum of insurer

a) General Insurance Council
b) Life Insurance Council
c) Insurance Council
d) IRDA council
e) a and b above

63. Members of IRDA would hold office upto

a) Whole time members for 6 years or until the age of 62, 65 in the case of the chairperson (whichever is earlier). Part time members not more than 6 years.
b) Whole time members for 5 Years or until the age of 62, 65 in the case of the chairperson (whichever is earlier). Part time members not more than 5 years.
c) Whole time members for 4 Years or until the age of 62, 65 in the case of the chairperson (whichever is earlier). Part time members not more than 4 years.

64. The institute of Actuaries of India, formerly known as the, ________________ when established in 1944,

a) Actuarial Society of India
b) Federation of Insurance Institute
c) Indian Federation of Insurance
d) Insurance Public Forum

65. Ombudsman have been appointed in ____________ citied in India

a) Five
b) Ten
c) Eleven
d) Fifteen

66. If the complainant does not accept the Ombudsman recommendation, the Ombudsman shall pass an award in writing –

a) Stating the amount awarded which shall not be in excess of what is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril or for amount not exceeding Rs. 20,00,000 whichever is lower.

b) Stating the amount awarded which shall not be in excess of what is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril or for amount not exceeding Rs. 50,00,000 whichever is lower.

c) Stating the amount awarded which shall not be in excess of what is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril or for amount not exceeding Rs. 5,00,000 whichever is higher.

d) Stating the amount awarded which shall not be in excess of what is necessary to cover the loss suffered by the complainant as a direct consequence of the insured peril or for amount not exceeding Rs. 25,00,000 whichever is higher.

67. Since ___________, the TAC's role has been modified. It does not lay down the rates. Insurers have been allowed freedom to decide the premium rates for all classes of businesses, subject to the rates being filed with the IRDA.

a) January 2008
b) December 2007
c) January 2007
d) February 2007

68. The Committee of IRDA consists

a) Chairperson, four whole time members and five part time members.

b) Chairperson, five while time members and four part time members.

c) Chairperson, three whole time members and four part time members.

70. A broker is expected to have a minimum prescribed capital varying from Rs. 50 Lakhs for a Direct Broker to _______ for a re-insurance or composite broker.

a) Rs.250 Lakhs
b) Rs.100 Lakhs
c) Rs.500 Lakhs
d) Rs.200 Lakhs

69. Members of IRDA would hold office upto

a) Whole time members for 6 years or until the age of 62, 65 in the case of the chairperson (whichever is earlier). Part time members not more than 6 years.
b) Whole time members for 5 Years or until the age of 62, 65 in the case of the chairperson (whichever is earlier). Part time members not more than 5 years.
c) Whole time members for 4 Years or until the age of 62, 65 in the case of the chairperson (whichever is earlier). Part time members not more than 4 years.

71. Which insurance companies has been formed for specific purpose

a) Deposit Insurance & Credit Guarantee corporation – For Insuring deposits
b) Export credit Guarantee Corporation _ For insuring credit risk
c) Agricultural Insurance Corporation – For Crop Insurance
d) Standalone Health insurance companies –For Health insurance
e) State Insurance Departments – For Employees Property of State Govts.
f) All

72. Which of the following are standalone health insurers in India

a) Max Bupa Health Insurance
b) Apollo Munich Health Insurance
c) Star Health and Allied Insurance
d) Birla Sun Life Insurance
e) a, b, c above

73. The Babylonian developed a system which was recorded in the famous ___________ in 1750 B.C.

a) Code of Babylonia
b) Code of Babylonism
c) Code of Insurance
d) Code of Hammurabi

74. A large and financially strong firm may create a fund to which periodic payments are credited and from which losses as and when they occur are paid

a) Insurance fund
b) Funding from insurance
c) Self insurance
d) Deposit

75. Cases where the motor vehicles disappear after the accident is known as

a) Solatium cases
b) Hit and Run cases
c) Hit Cases
d) Accident cases
e) Mact cases

76. Institute cargo clauses has been devised by –

a) Institute of British underwriters
b) Institute of London underwriters
c) Institute of New York underwriters
d) Institute of Lloyds underwriters

77. Institute Cargo Clauses are used in Marine insurance when insured goods are being moved from one country to another.

a) Institute Cargo clauses
b) Institute Time clauses
c) Institute Goods clauses
d) Institute Carrier clauses

78. The process of giving discount in premium in respect of non-life policies which are being renewed and under which there has been no claim during the previous year is called –

a) No claim
b) No claim Bonus
c) Bonus not claimed
d) Premium Reduction

79. Lapsed policies can brought back to the original status through, what is called, the_______ process.

a) Revive
b) Revival
c) Lapsed
d) Expired
e) Re-issue

80. ________ policies allow conversion of a Whole Life-policy to an Endowment policy within specified periods, on the request of the policyholder, without any further evidence of health.
a) Convertible
b) Exchangeable
c) Transferable
d) Changeable

81. Ombudsman helps to:
a) Resolve complaints in cost effective and efficient manner
b) Act as an counsel and mediator in matters within its terms of reference
c) Resolve those complaints which are not in Arbitration
d) Make personal submissions by the insurer and Complainant
e) All of the above

82. Days of Grace helps to:
a) Avoid default in payment of premium
b) Earn interest on premium amount
c) Revive a policy which is lapsed
d) Reduce the premium amount
e) All of the above

83. Which term matches closest with "copay"
a) Co-payment
b) Non-Payment
c) Due payment
d) Balance payment
e) Full payment

84. Fac RI as used in Reinsurance means
a) Facultative Reinsurance
b) Full Reinsurance
c) Fidelity Reinsurance
d) First Reinsurance
e) Final Reinsurance

85. MACT means
a) Motor Authority Contract Tribunal
b) Marine Accidents claims Tribunal
c) Marine Authority Claims Tribunal
d) Marine Accidents Consumer Tribunal
e) None of the above

86. Which of the following are accepted as basic consumer rights?
a) The right to redress
b) The right to safety
c) The right to choose
d) The right to be informed
e) All of the above

87. The term "IBNR" means claims:
a) Incurred but Never Reminded
b) Informed but Not Rejected
c) Intimated but Not Received
d) Incurred but not reported
e) None of the above

88. The expression "ceding" is used
a) When re-insurer passes on business to the primary insurer
b) When primary insurer passes on business to the re-insurer
c) When re-insurer passes on business to the another insurer
d) When primary insurer does not pass business to the re-insurer
e) None of the above

89. The main purpose of Group Policies is to cover:
a) Small number of persons under one policy
b) Small number of persons under different policies
c) Large number of persons under one policy
d) Large number of persons under different policies
e) None of the above

90. Ordinary Commercial Contracts are governed by the principle of…….
a) Let the buyer Beware
b) Let the Seller Beware
c) Let the Seller not Beware
d) None of the above
e) All of the above

91. …………..… is a partial loss
a) General Average
b) Particular Average
c) No Claim Bonus
d) Malus
e) Agreed Value

92. Insurance Contracts are of a……..
a) Invalid contract nature
b) Fiduciary nature
c) Speculative nature
d) Wagering nature

e) None of the above

93. Cover Note is issued
a) As an endorsement on a policy
b) Pending issue of the final policy
c) To effect cancellation of a policy
d) As a publicity document by insurer
e) None of the above

94. IRDA is expected to:
a) Be the authority to administer the Insurance Act
b) Regulated the Insurance Industry
c) Issue licenses to Insurers
d) Issue regulations relevant to proper functioning of the industry
e) All of the above

95. Which of the following are not customers in Life Insurance?
a) A person who buys insurance
b) A person who collects maturity proceeds
c) A person who is doubtful
d) A person who receives the death claim
e) All of the above are customers in Life Insurance

96. Ex - gratia payments work on the principle of
a) Insurer being satisfied
b) A minor irregularity has occurred
c) Claim is not payable
d) Conditions of insurance have been met substantially
e) All of the above

97. IRDA is
a) Insurance Regulatory and Development Authority
b) Indian Regulator and Development Act
c) Institute of Rural Development Agency
d) Indian Railway Development Agency
e) Insurance Regulatory and Development Association

98. Insurance
a) Capitalizes earning power
b) Promotes thrift
c) Offers financial protection
d) Creates equitable distribution of risks and losses
e) All of the above

99. Insurance helps to:
a) Make an avenue for long term investment
b) Indemnify against the loss
c) Prevents adverse situations from occurring
d) Prevents the negativity of adverse situations
e) All of the above

100. Which statement is incorrect in respect of "Conditions Precedent?"
a) It is a requirement to disclose material facts
b) For policy to be valid essential material facts are to be disclosed
c) If conditions are not met policy will not be operational
d) These have to be fulfilled before policy is issued
e) All the above statements are incorrect

ANSWER PRACTICE QUESTION SET – II

1 (d), 2 (d), 3 (c), 4 (c), 5 (d), 6 (c), 7 (d), 8 (c), 9 (d), 10 (c), 11 (d), 12 (d), 13 (b), 14 (d), 15 (d), 16 (b), 17 (c), 18 (b), 19 (c), 20 (c), 21 (c), 22 (c), 23 (d), 24 (d), 25 (b), 26 (d), 27 (b), 28 (b), 29 (d), 30 (c), 31 (a), 32 (d), 33 (a), 34 (d), 35 (c), 36 (a), 37 (c), 38 (c), 39 (d), 40 (d), 41 (c), 42 (a), 43 (c), 44 (d), 45 (d), 46 (d), 47 (d), 48 (d), 49 (c), 50 (a), 51 (d), 52 (a), 53 (d), 54 (d), 55 (c), 56 (a), 57 (e), 58 (e), 59 (c), 60 (b), 61 (a), 62 (e), 63 (b), 64 (a), 65 (a), 66 (a), 67 (c), 68 (b), 69 (a), 70 (b), 71 (f), 72 (e), 73 (d), 74 (c), 75 (b), 76 (b), 77 (a), 78 (b), 79 (b), 80 (a), 81 (e), 82 (a), 83 (a), 84 (a), 85 (e), 86 (e), 87 (a), 88 (b), 89 (c), 90 (a), 91 (b), 92 (b), 93 (b), 94 (e), 95 (c), 96 (c), 97 (a), 98 (e), 99 (e), 100 (d)

Question Bank

1) State which statement is correct
   Statement A – Risk means the possibility of adverse results flowing from any occurrence.
   Statement B – Risk means opportunity to gain money from insurer.
   a) A is correct
   b) B is correct
   c) Both statements are correct
   d) Both statements are wrong.
   e) No answer can be derived.

2) State which Statement is true.
   Statement A – Risk arisen out of uncertainty.
   Statement B – risk arises out of certainty of event.
   a) A is correct
   b) B is correct
   c) Both statements are correct
   d) Both statements are wrong.
   e) No answer can be derived.

3) State which statement is correct
   Statement A – The degree of risk may or may not be measurable.
   Statement B – The degree of risk must be measurable.
   a) A is correct
   b) B is correct
   c) Both the above statements wrong.
   d) Both the above statements correct.
   e) No answer can be derived.

4) State which Statement is correct.
   Statement A – The grater is the uncertainty, greater is the risk.
   Statement B – The Lesser is the uncertainty, Lesser is the risk.
   a) A is correct
   b) B is correct
   c) Both the statements are Correct.
   d) Both the statements are wrong.
   e) No answer can be derived.

5) which of the statement is correct
   Statement A – A Peril is cause of Loss.
   Statement B – A Hazard is cause of Loss.
   a) A is correct
   b) B is correct
   c) Both the statements are Correct.
   d) Both the statements are wrong.
   e) No answer can be derived.

6) Which of the statement is correct
Statement A – A Hazard is a condition that may create or increase chance of loss arising from peril.
Statement B – There are 5 types of hazards.
a) A is correct
b) B is correct
c) Both the statements are Correct.
d) Both the statements are wrong.
e) No answer can be derived.

7) Which of the following statement is correct
Statement A – Moral Hazard means loss results from dishonesty.
Statement B – Moral Hazard means loss results from dishonesty, as well as different attitude towards loss.
a) A is correct
b) B is correct
c) Both the statements are Correct.
d) Both the statements are wrong.
e) No answer can be derived.

8) State Which statement is correct
Statement A – The inclination of juries to make larger awards when loss is covered by insurance is best example of Morale Hazard.
Statement B – To induce another pessen to attempt to defraud the insurance company is best example of Morale Hazard.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

9) State Which statement is correct
Statement A – An insurer would normally seek to concentrate the risks.
Statement B – An insurer would normally seek to spread of risks.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

10) State Which statement is correct
A – To spread over risk, insurers create reserve out of profits.
Statement B – Insurers create reserve to declare bonuses.
a) A is correct
b) B is correct
c) Both the statements are Correct.
d) Both the statements are wrong.
e) No answer can be derived.

11) State which of the statement is correct
Statement A – Dynamic risks normally benefit the society.
Statement B – Dynamic risks normally benefit the individual
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

12) State Which of the statement is correct
Statement A – Static losses are less predictable.
Statement B – Static Losses tend to occur with regularity are generally predictable.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

13) State Which of the statement is correct
Statement A – Fundamental risks involve losses that are impessonal in origion and consequences.
Statement B – Fundamental risks involve losses that arise out of the individual events
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

14) Which statement is correct
Statement A – The burning of house is an example of particular risk.
Statement B – The unemployment is an example of fundamental risk.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

15) Which is not a method of handling risk.
a) Risk may be avoided
b) Risk may be shared
c) Risk may be transferred.
d) Risk may be neglected.
e) None of this

16) State which of the statement is correct
Statement A – The term pure risk indicates the situation that involve loss or no loss
Statement B – Speculative risk deserises the situation of possibility of gain.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

17) State Which of the following is correct
Statement A – Premature death is a pure risk.
Statement B – Premature death is a speculative risk.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

18) State Which is correct
Statement A – Unemployment is classified as pure risk.
Statement B – Unemployment is classified as fundamental risk.
b) A is correct
c) B is correct
d) Both the statements are wrong.
e) Both the statements are correct.
f) No answer can be derived.

19) State Which is correct
Statement A – Risk Management is the function of Management.
Statement B – Risk Management is the function of employee's Association.
a) A is correct
b) B is correct
c) Both the statements are Correct.
d) Both the statements are Wrong
e) No answer can be derived.

20) State which is correct one
Statement A – Risk Management deals with insurable and uninsurable risks.
Statement B – risk Management deals with only insurable risks.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

21) State Which is correct
Statement A – Bhopal Tragedy is a critical risk.
Statement B – Motor accident is a critical risk.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

22) State Which is correct
Statement A – risk identification and risk analysis are important steps of risk Management.
Statement B – risk assessments and Evaluation and review are important steps in risk.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

23) State Which is correct
Statement A – Risk control focuses on minimizing the risk of loss.
Statement B – Risk control techniques include avoidance and reduction of risk.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

24) Following is basic pure risk an individual has to face.
a) Insolvency
b) Poverty
c) Premature Death
d) all the three.
e) None of this

25) Advantages of the self insurance are
a) Interest on funds belongs to the insured.
b) Insured's contribution is not increased.
c) Direct incentive to reduce and control the risk.
d) all the three.
e) None of this.

26) Disadvantages of the self insurance are
   a) Capital has to be tied up in short term.
   b) The principle of spreading of risk is defected.
   c) Technical of insurers and surveyors would not be available.
   d) all the three.
   e) None of this.

27) State Which of the following is correct
   Statement A – Shifting of risk is fundamental characteristic of insurance.
   Statement B – Sharing of loss on equitable basis by all members is fundamental characteristic of insurance
   a) A is correct
   b) B is correct
   c) Both the statements are correct.
   d) Both the statements are wrong.
   e) No answer can be derived.

28) State which of the following is correct
   Statement A – The Primary function of insurance is the creation of the counter balance of risk, called Security
   Statement B – The primary function of insurance is to create the estate.
   a) A is correct
   b) B is correct
   c) Both the statements are correct.
   d) Both the statements are wrong.
   e) No answer can be derived.

29) State Which of the following is correct
   Statement A – Insurance reduces the extent of financial loss connected with the event.
   Statement B – Insurance reduce the uncertainly of occurrence of an event.
   a) A is correct
   b) B is correct
   c) Both the statements are correct.
   d) Both the statements are wrong.
   e) No answer can be derived.

30) State Which of the following is correct
   Statement A – Insurance mechanism reduces risk, and uncertainly for the society as a whole.
   Statement B – Insurance mechanism adds burden to the society..

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

31) State Which is correct
Statement A – The accuracy of the insurer's prediction is based on the law of large numbers.
Statement B – the accuracy of the insurer's prediction is based on its financial condition.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

32) State Which is correct
Statement A – In Insurance it is likely that the probability involved is constantly changing.
Statement B – In Insurance the probability involved is always constant.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

33) State which is correct
Statement A – Insurance mechanism is burden to individual or Society.
Statement B – Insurance mechanism relieves the individual or society from burden of carrying various risks.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

34) State Which is correct
Statement A – Money, time, expertise is the triangle which represents insurance transaction.
Statement B – The risk, The insured, The Insurer is the triangle which represent insurance transction.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

35) State Which is correct
Statement A – Marketing plays a vital role in the transaction of insurance today.
Statement B – Marketing has very less role in the transaction of insurance today.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

36) State Which is correct
Statement A – In Insurance proposer hopes he will never have to use the service of the insurer.
Statement B – In tangible products, the purchaser knows that he will. Require services of the seller.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

37) State which is correct
Statement A – The proposal form is most common mechanism by which insurer receives information about risks to be insured.
Statement B – The proposal form is only a introductory form.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

38) State Which is correct
Statement A – The questions in proposal form are of not much important.
Statement B – The questions in proposal form assist the underwriter to assess the risk.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

39) State Which is correct
Statement A – The insurance policy is only evidence of contract.
Statement B – The insurance policy is itself a contract.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct
e) No answer can be derived.

40) State Which is correct
Statement A – The exception in the policy when applied claim is not payable.
Statement B – The exception in the policy is not related to consideration of claim.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

41) State Which is correct
Statement A – Generally, in the policy schedule, the particulars of insured person are included.
Statement B – The policy schedule is the place where policy is made personal insured.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

42) State Which is correct
Statement A – The conditions which appear on the policy are the express conditions
Statement B – The conditions which do not appear on the policy are called implied conditions.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

43) State Which is correct
Statement A – Insurable interest and utmost good faith is express condition.
Statement B – Exclusion of accident benefit is implied condition.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

44) State Which is correct
Statement A – If there is breach of condition, the claim is to be repudiated.
Statement B – If there is breach of condition, the effect will very.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

45) State Which is correct
Statement A – There is provision of issue of cover note in motor insurance.
Statement B – Sometimes cover note is issued in life insurance also.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

46) State Which is correct
Statement A – In life insurance, the risk starts when premium is paid and acceptance letter is issued.
Statement B – In general insurance the risk starts when cover note is issued.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

47) State Which is correct
Statement A – There is no obligation to issue the renewal premium notice.
Statement B – Non receipt of notice is an excuse for the insured not to pay the premium.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

48) State Which is correct
Statement A – Non payment of premium implies that contract is not renewed.
Statement B – Non payment of premium will lead to lapsation of policy.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

49) State Which is correct
Statement A – Once the renewal premium is paid, the cover is started from that date.
Statement B – Once the renewal premium is paid, the cover is started from the renewal date.
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

50) State Which is correct
Statement A – In motor insurance days of grace do not apply to pay the renewal premium.
Statement B – In life insurance days of grace apply to pay the renewal premium.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

51) State Which is correct
Statement A – Insurance provides a financial service.
Statement B – Insurance market is a substantial market.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

52) State Which is correct
Statement A – Insurance commission is fixed percentage of premium applicable to all policies.
Statement B – Insurance commission payable varies for different classes of business.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

53) State Which is correct
Statement A – An insurer broker is an employee of insurance company
Statement B – An insurance broker is deemed to be an independent professional.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

54) State Which is correct
Statement A – Mutual companies are owned by the policyholders who share profits made.
Statement B – Mutual companies are owned by government.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

55) Which is not the component of policy document.
a) The preamble
b) The proposal
c) Policy schedule
d) Operative clause.
e) None of this

56) The conditions which appear on policy are called.
a) Implied
b) Express
c) Precedent
d) Non of these.
e) None of this

57) In motor insurance, the certificate is normally valid for days.
a) 21
b) 15
c) 30
d) 7
e) None of this

58) Following are operating in the insurance market place.
a) The Insurance Agent
b) The insurance broker
c) The insurance surveyor
d) All of the three
e) None of this

59) An Indian insurer who was the fires to cover Indian lives at normal rates.
a) Oriental life insurance company.
b) Bombay life assurance company.
c) Madras equitable life insurance company.
d) Bombay mutual life assurance society.
e) Life Insurance Corporation f India.

60) State which is correct
Statement A – The Indian life assurance companies Act was the first statutory measure to regulate life insurance business.
Statement B – The insurance Act was the first statutory measure to regulate life insurance business.
a) A is correct
b) b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

61) The enactment of Insurance Act came in force in
a) 1956
b) 1874
c) 1912
d) 1938
e) 1975

62) Life insurance corporation came into existence on
a) 1st Sept 1956
b) 1st Jan 1973
c) 19th Jan 1956
d) 30th Sept 1956
e) None of these.

63) General Insurance business in India was nationalized from
a) 1st Sept 1956
b) 1st Jan 1973
c) 19th Jan 1956
d) 1st Jan 1999
e) None of these.

64) Four subsidiaries of general insurance came into existence on
a) 1st Sept 1956
b) 1st Jan 1973
c) 19th Jan 1956
d) 1st April 1964
e) None of these.

65) Controller of Insurance office shifted from - to
a) Shimla – Delhi
b) Delhi - Bombay
c) Bombay – Delhi
d) Delhi - Shimla
e) Delhi - Hyderabad

66) Postal Life Insurance Scheme provides Life insurance coverage to
a) Government employees
b) Public Sector employees
c) General public in rural areas
d) All of three.
e) None of the this

67) Who must support a life office of insurer?
a) Chartered Accountant
b) An Actuary
c) M.B.A.
d) Insurance Surveyor
e) None of these

68) Actuary derives the title through passing the qualifying examination of professional bodies such as.
a) Actuarial Society
b) Insurance Institute of India
c) Institute of actuaries Delhi
d) Charted Insurance Institute London
e) None of the above.

69) Actuary performs main task in life office.
a) Computation of premium
b) surrender value
c) Valuation of liabilities
d) All of these
e) None of these.

70) State control over insurers is necessary to protect public such as.
a) Maintain Solvency
b) Equity
c) Competence
d) All of three.
e) None of these.

71) State which is correct
Statement A – Now, Indian can become actuary without going overseas or taking overseas examinations.
Statement B – It is necessary to take examination of the Institute of Actuaries London.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

72) State which is correct
Statement A – The solvency of an insurance company corresponds to its ability to pay claims.
Statement B – An insurer is insolvent is its assets are not adequate or cannot be disposed of in time to pay the claims arising.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

73) State control over insurers is necessary to protect socially desirable measures.
a) Equity
b) Insurable interest
c) competence
d) Solvency
e) None of these.

74) Which insurance is made compulsory.
a) employer's liability
b) third party in motor insurance
c) All of these
d) Public Liability
e) None of these.

75) Government's intervention in areas of social risk is total
a) unemployment
b) stickness
c) old age pension
d) All of these
e) None of these.

76) The following financial norms are to be observed by the registered insurers.
a) Maintenance & minimum reserve
b) Solvency margin
c) Minimum paidup capital
d) Periodical Acturial Valuation
e) All of the above

77) Aims and objectives of insurer regulation are.
a) To monitor the whole range of activities.
b) To promote and preserve high standards of professionalism.
c) To provide for fair treatment of policyholders in the matter of policy terms & conditions.
d) To submit statutory reports
e) All of the four.

78) Following is the area where insurance regulator has no control.
a) licensing a new member
b) suspending the license of insurer
c) Termination of insurance agency
d) Winding up of an insurer member
e) Licensing of a insurance broker.

79) Long term insurance business refers to
 a) Individual life insurance
 b) Pension business
 c) Permanent health insurance
 d) Employers Gratuity Payment
 e) All of the above

80) Short term, normally one year period insurance business refers to
 a) Motor insurance
 b) Provision of pension
 c) Whole life policies
 d) ULIP Policies
 e) None of these.

81) Life Insurance includes following policies
 a) Personal accident & health
 b) Burglary insurance
 c) Individual permanent health insurance
 d) Employer's liability
 e) Marine Cargo Insurance

82) Life Insurance does not includes
 a) Individual life insurance
 b) Pension insurance
 c) Personal accident & health
 d) ULIP policies
 e) Key man Insurance.

83) General Insurance business includes
 a) Marine Insurance
 b) Personal accident
 c) Motor Insurance
 d) Liability Insurance
 e) All of the above

84) Following Insurance for workers or member of public are made compulsory
 a) Motor vehicles Act 1988
 b) Workmen's compensation Act
 c) Public Liability Insurance Act 1991
 d) All of Three
 e) None of these.

85) Social Insurance is mainly seen in form of
 a) National Health
 b) Unemployment scheme
 c) All of them
 d) Old Age Income Protection
 e) None of them

86) State which is correct
Statement A – In life insurance, sum assured payable on happening of the assured event is fixed.
Statement B – In life assurance, sum assured payable on the happening of the assured event depends on the loss.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

87) State which is correct
Statement A – In life assurance level premium is payable throughout the term.
Statement B – In life assurance premium is changed every year according to the increase in risk.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

88) State which is correct
a) All policies carry surrender value.
b) Surrender value means a preparation of premium actually paid.
c) Lapse policies do not carry surrender value.
d) None of the above.
e) No answer can be derived.

89) In life insurance when the policy is in force the amount paid on death is
a) Surrender value
b) Sum Assured
c) Paid up value
d) refund of premiums paid
e) None of these.

90) In whole life insurance policy sum Assured is payable.
a) On maturity
b) On Death
c) After 15 years
d) On Survival
e) None of these.

91) It is the cheapest form of Assurance.
a) Endowment Assurance
b) Term Assurance
c) Whole life limited payment
d) Unit Linked Insurance Plan
e) None of these.

92) which is a pension policy
- a) Whole life limited
- b) Life Annuity
- c) term Insurance
- d) family Income policy.
- e) Key Man Insurance

93) Life annuities can be of type
- a) Immediate annuity
- b) Deferred annuity
- c) Annuity for certain period & life thereafter
- d) Annuity increased every year
- e) All of these.

94) Under industrial life insurance premiums are collected.
- a) Weekly
- b) fortnightly
- c) Monthly
- d) All of these.
- e) None of these

95) Pension to retired employees may be provided by
- a) Self managed pension scheme
- b) Purchase an annuity at the time of retirement
- c) Purchase insured pension policy with life office
- d) All of these.
- e) None of these.

96) The broad classifications specified in Indian Insurance Act 1938 are.
- a) Fire Insurance
- b) Marine Insurance
- c) Miscellaneous Insurance
- d) All of these.
- e) None of these.

97) The Standard fire policy covers damage to the property caused by.
- a) Fire
- b) Lightering
- c) explosion by gas or boilders
- d) All of the above
- e) None of these

98) Marine policy relate to following areas of risk.
- a) Hull
- b) Cargo
- c) Freight
- d) All of these.
- e) None of these

99) maximum capital can be owned by foreign insurance company.
- a) 49%
- b) 75%
- c) 26%
- d) 50%
- e) 51%

100) Miscellaneous insurance business means
- a) General insurance business other than fire and marine.
- b) General insurance other than fire & motor insurance.
- c) General insurance other than marine & motor insurance.
- d) General insurance business including fire & marine insurance.
- e) None of these.

101) Comprehensive policy under motor insurance covers.
- a) The minimum required by the law.
- b) ‘Third party only’ policy covers insured’s liability in respect of third party injury, death or
- c) proportional damage.
- d) ‘Third party fire & theft’ covers damage to car and its contents from fire & theft.
- e) The widest and includes accidental damage in additional to third party, fire & theft cover.
- f) None of these

102) Engineering insurance covers
- a) Damage or breakdown of specific item of plant and machinery.
- b) An inspection service.
- c) Cost of repair of items.
- d) All of the above.
- e) None of these

103) General Liability Insurance comprises.
- a) Employer’s liability and public liability.
- b) Products liability
- c) Professional indemnity insurance.
- d) All of the above.
- e) None of the above.

104) In India any insurance company will be allowed to do.
- a) Composite business.
- b) Only life or only non life business.
- c) Life, Non life and Reinsurance Business.
- d) Both of the above.
- e) None of the above.

105) Methods of valuation of assets & liabilities are prescribed in.
- a) SEBI regulations.
- b) Insurance regulations.
- c) LIC Act.
- d) Company Law.
- e) Consumer production Act

106) The task for the underwriter are
- a) To assess the risk which is proposed.
- b) To decide whether or not to accept the risk and how much to accept.
- c) To determine the terms, conditions and scope of cover to be offered and calculate suitable premium.
- d) All of the above.
- e) None of the above.

107) The insurance premium must be sufficient
- a) To cover expected claims.
- b) To create a reserve for outstanding claims.
- c) To provide for acquisition casts and management expenses.
- d) All of the above.
- e) None of the above.

108) State which is correct
Statement A – The premium paid by the insured to the insurer is called gross direct premium so called gross direct business.
Statement B – Net business refers to an insurer's business less reinsurance ceded.
- a) A is correct
- b) B is correct
- c) Both the statements are wrong.
- d) Both the statements are correct.
- e) No answer can be derived.

109) State Which is correct
Statement A – Insurance Act 1938 provides the relevant formats and rules for preparation of insurance companies accounts.
Statement B – Company law provides the relevant formats and rules for preparation of insurance companies accounts.
- a) A is correct
- b) B is correct
- c) Both the statements are correct.
- d) Both the statements are wrong.
- e) No answer can be derived.

110) Insurance companies take reinsurance for
- a) Stabilize the company.
- b) Confidence to the insured.
- c) Spreading of risk.
- d) All of the above.
- e) None of the above.

111) State which is correct

Statement A – The main advantage of reinsurance is that the ceding office can give immediate cover to the public.

Statement B – Facultative reinsurance is relatively expensive and takes a longer times to complete.

a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

112) The definition of contract is given in

a) Insurance Act 1938
b) The Indian Contract Act 1872
c) LIC Act 1956
d) Income Tax Act 1861
e) IRDA Act 1999

113) A Simple contract have following elements.

a) Intention to create legal relations
b) Offer and acceptance
c) Consideration
d) All of the above
e) None of these

114) A Simple contract have following elements

a) Legality of purpose
b) Possibility of Performance
c) Capacity to contract
d) All of the above
e) None of these

115) Life Insurance contracts are subject to

a) Principle of indemnity
b) Principle of contribution
c) Utmost good faith
d) Caveat Emptor
e) Principle of Indemnity

116) Definition of utmost good faith contains

a) Duty voluntarily to disclose
b) Accurately & truly
c) Facts material to risk, being proposes whether requested or not
d) All of the above
e) None of these

117) State which is correct
Statement A – The fact must be material at the date at which it should be communicated.
Statement B – A fact which was immaterial when the contract was made, but becomes material later on, need not be disclosed.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

118) In fire insurance following fact must be disclosed
a) The construction of the building.
b) The nature of use of building.
c) fire detection and fire fighting facts must be disclosed
d) All of the above
e) None of the above

119) In theft insurance following facts must be disclosed
a) The nature of stock
b) The value of the stock
c) The nature of security precautions
d) All of the above
e) None of the above

120) The facts which need not be disclosed
a) Facts of law
b) Facts of common knowledge
c) Facts which lessen the risk
d) All of the above
e) None of the above

121) There is no duty of disclosure at the time of renewal in
a) General Insurance
b) Life Insurance
c) Life & General Insurance
d) All of the above
e) None of the above

122) Risks which are insurable must have characteristics
a) They must be capable of financial measurement.
b) There must be sufficient number of similar risks
c) They must be pure & particular
d) All of the above.
e) None of the above

123) State which is correct
Statement A – The existence of insurable interest is an essential ingredient of any insurance contract.
Statement B – Insurable interest is an important and fundamental principle of insurance.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

124) State which is correct
Statement A – In insurance contract insurable interest in the subject matter is essential.
Statement B – In wagering contract full disclosure is not required by either party.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

125) Insurable interest will arise or be limited
a) By Common law
b) By contract.
c) By statute.
d) Any one of the three.
e) None of these.

126) Nominee has a right
a) To receive claim amount
b) To transfer the rights under the policy
c) To Change the nomination
d) To surrender the policy.
e) To take a loan on policy

127) Principle of indemnity is not applicable to
a) Property insurance
b) Liability insurance
c) Other non life insurance
d) Life Insurance
e) Engineering Insurance

128) Valued and unvalued policies are provided in
a) LIC Act 1956
b) The Marine Insurance Act 1906 (UK)
c) Insurance Act 1938
d) None of the above.
e) IRDA Act 1999

129) Extensive of repair as a method of providing indemnity is used.
- a) Glass-Insurance
- b) Fire Insurance
- c) Motor Insurance
- d) Engineering policy
- e) Life Insurance

130) Replacement method of indemnity is used in
- a) Glass Insurance
- b) Fire Insurance
- c) Motor Insurance
- d) Engineering policy
- e) Life Insurance

131) Manufacturer's stock generally consists of
- a) Raw material
- b) Work in progress
- c) Finished stock
- d) All of these
- e) None of these

132) The term pecuniary insurance related to
- a) Dishonesty of the individual
- b) Physical damage
- c) Operation of perils
- d) All of the above
- e) Natural Calamities

133) The question of salvage arises when
- a) Property is destroyed to the extent that it has ceased to exist.
- b) Property is not damaged to this extent but remains damaged.
- c) Both the statements are correct.
- d) Both the statements are wrong.
- e) No answer can be derived.

134) Abandonment applies in
- a) Motor Insurance
- b) Marine Insurance
- c) Fire Insurance
- d) Burglary Insurance
- e) None of these

135) The major factors for setting losses are
- a) What is the extent of the insured's loss?
- b) To what extent will the policy respond?
- c) Both A & B
- d) None of A & B.
- e) No answer can be derived.

136) The maximum amount recoverable under any policy is limited by
- a) Sum Assured
- b) The limit of indemnity
- c) One of A or B
- d) Higher of A & B
- e) None of these

137) In case of underinsurance in general insurance the loss
a) Is totally borne by the insured
b) Is totally borne by the insurer
c) Is shared between the insured and insured in proportion to the extent of underinsurance.
d) All of the above.
e) None of the above.

138) Reinstatement clause would mean
a) Indemnity
b) Wear, tear & depreciation
c) The effect of inflation between the date of loss and eventual date of reinstatement.
d) All of the above.
e) None of the above.

139) Principle of subrogation does not apply to
a) Marine Insurance
b) Fire Insurance
c) Life Insurance
d) Miscellaneous Insurance
e) Engineering Insurance

140) Principle of subrogation does not apply to
a) Marine Insurance
b) Fire Insurance
c) Personal accident
d) Miscellaneous Insurance
e) Engineering Insurance

141) Principle of subrogation applies applies to
a) Fire Insurance.
b) Life Insurance
c) Personal accident
d) None of these.
e) All of these

142) Subrogation may apply to
a) Contract of indemnity
b) Contract of good faith
c) Contract of caveat emptor
d) None of these.
e) All of these

143) Insurer's right of subrogation arises
a) When the policy is issued.
b) At the end of the contract.
c) Once the insurers have admitted the claim and paid it.
d) All of the above.
e) None of the above

144) State which is correct
Statement A – The principle of contribution enables the total claim to be shared in a fair way.
Statement B – the only limitation under subrogation is that the insurer cannot recover from a third party before he has actually settled with his own insured.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

145) For application of principle of contribution condition needs
a) Two or more policies of indemnity must exist
b) The policies must cover common interest
c) The policies cover a common peril which gives rise to the cost
d) All of these.
e) None of these

146) The perils relevant to insurance claim can be classified
a) Insured perils means named in the policy
b) Expected or excluded perils stated in the policy as excluded.
c) Uninsured or other perils which are not mentioned in the policy
d) All of the above.
e) None of the above

147) The proximate cause has qualification
a) It should be direct
b) It should be most dominant
c) It should be must effective cause of which loss is the natural consequence
d) All of these.
e) None of these

148) State which is correct
Statement A – Proximate cause is closely & directly connected with the loss necessarily in time.
Statement B – Proximate cause is closely & directly connected with the loss in efficiency and effectiveness.
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

149) The onus of proof lies on insured

a) when the loss is occurred due to insured peril.
b) When the loss is occurred due to excepted peril.
c) Both the statements are wrong.
d) Bothe the statements are correct.
e) No answer can be derived.

150) The onus of proof lies on insurer

a) When the loss is occurred due to excepted peril.
b) When the loss is occurred due to insured peril.
c) Both the statements are wrong.
d) Both the statements are wrong.
e) No answer can be derived.

151) Insurance is meant to

a) Prevent specified events
b) Prevent damage to assets from specified events
c) Compensate for losses from specified events
d) Rebuild the assets lost because of specified events
e) None of these

152) Insurance compensates losses

a) By replacing the original asset
b) To the full extent of lost income
c) Only to the extent of insured amount
d) All the three ways
e) None of these

153) Which of the following possibilities are insurable?

a) That one may not win the lottery jackpot
b) That the marriage will work out successfully
c) That the son will get admission in the prestigious college he has applied
d) That it will not rain on the day of the cricket match
e) None of these

154) The amount of insurance depends on

a) The peril
b) The risk
c) Neither the peril nor the risk
d) Both the peril and the risk
e) None of these

155) The amount payable under a life insurance policy depends on

a) The income of the insured person at the time of the claim
b) The income of the insured person when he took the insurance
c) The amount of the sum assured
d) None of the above
e) All of the above

156) State which of the following statement is correct

Statement A – Risk is uniform for all assets
Statement B – Life insurance improves standards of living

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

157) Insurance works on the principle of

a) Sharing
b) Probabilities
c) Large numbers
d) All of the above
e) None of the above

158) State which of the following statement is correct

Statement A – Risk, if certain, cannot be insured.
Statement B – Risk refers to the loss that happens

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

159) The insurer, being a trustee, has to ensure that

a) The claim paid is genuine
b) The premium charged is fair and reasonable
c) A suspicious claim is not paid
d) All of the above
e) None of the Above

160) An insurer, as a trustee, is responsible to the

a) The policyholders
b) The IRDA
c) The Government
d) All of the above
e) None of the above

161) Life insurance is arranged because

a) Some one may die
b) Some one may live
c) Of both the above reasons
d) Of neither of the above reasons
e) Cannot be stated

162) In a life insurance contract, the beneficiary may be the

a) The policyholder
b) The life insured
c) The dependents of the life insured
d) All the three mentioned above
e) None of the three

163) Which one of these principle does not apply in the case of a life insurance contract?

a) The principle of indemnity
b) The principle of good faith
c) The principle of insurable interest
d) The principle of large numbers
e) None of these

164) Reinsurance is the name given to

a) An individual taking insurance for the second time
b) An insurer placing insurance with another insurer
c) Both the above situations
d) Neither of the above situations
e) Cannot be stated

165) State which of the following statement is correct
Statement A – Perils are avoidable
Statement B – Perils are not avoidable

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

166) Which of the following risks are insurable

a) Speculative
b) Economic
c) Sure to happen
d) All of the above
e) None of the above

167) Which one of the following statement is correct
Statement A – A life insurance policy is a contract, enforceable in a court of law
Statement B – A life insurance policy is not required to be stamped
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

168) Which one of the following statement is correct
a) The principle of utmost good faith applies only to life insurance
b) The principle of utmost good faith applies only to non medical cases
c) The principle of utmost good faith is operative only for two years
d) All the above statements are incorrect
e) All the above statements are correct

169) The responsibility to comply with the principle of utmost good faith rests with
a) The agent
b) The Proposer
c) The life to be insured
d) All the three
e) None of three

170) The principle of utmost good faith does not apply to
a) Facts of common knowledge
b) Facts of law
c) Facts which are not material for underwriting
d) All the three kinds of fact mentioned above
e) None of three

171) A life insurance policy becomes invalid if
a) There is a change in occupation after the policy has commenced
b) If the policyholder changes his residence to another country
c) The statements in the proposal are found to be substantially wrong
d) The insured person becomes sick after issue of policy.
e) All of these

172) Which one of the following statement is correct
Statement A – Duty to disclose applies till claim arises in life insurance.
Statement B – Insurer are responsible for adverse selection

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

173) The existence of insurable interest is decided by
a) The interest which the proposer has in the asset being insured
b) The relationship between the proposer and the object of insurance
c) The legal decisions on these matters
d) All of the above
e) None of the above

174) Insurable interest is
a) Defined in the Insurance Act
b) Defined in the Contract Act
c) Defined by the IRDA
d) Not defined in any written law
e) None of the above

175) In the case of life insurance, insurable interest should exist
a) At the inception of the policy
b) At the time of a claim
c) At the time of every renewal premium payment
d) All the above occasions
e) None of the above occasions

176) In the case of life insurance, the principle of insurable interest operates
a) In the same way as in marine insurance
b) In the same way as in fire insurance
c) In the same way as in motor insurance
d) Differently than in other forms of insurances
e) All of three

177) Which one of the following statement is correct
Statement A – Declaration at the end of the proposal form has no legal sanctity
Statement B – Declaration at the end of the proposal is a warranty
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

178) Which one of the following statement is correct, with references to life insurance?

a) The claim payable is subject to the principle of indemnity.
b) The claim payable will depend on the Sum Assured
c) The claim payable will depend on the income of the deceased person
d) The claim payable will depend on the size of the family left behind
e) All of the above

179) Which one of the following statement is correct
Statement A – It is difficult to accurately value a human life.
Statement B – It is possible to reasonably estimate the value of a human life.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

180) Which one of the following statement is correct

a) The needs of people are different.
b) The needs of people vary according to life styles
c) The needs of people depend on their upbringing
d) All the three statements are correct
e) All the three statements are Wrong

181) Which one of the following statement is correct
Statement A – Term insurance policies are suitable for elderly adults
Statement B – A nominee must have insurable interest in the life insured

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

182) Which one of the following statement is correct
Statement A – Retention of risk is an alternative to insurance
Statement B – Insurable interest exist between partners

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

183) Which one of the following statement is correct
Statement A – A whole life plan is basically a term insurance plan
Statement B – A money back plan is basically a pure endowment plan

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

184) Which one of the following statement is correct
Statement A – The SA payable on death can be more than the SA payable on maturity.
Statement B – The SA payable on maturity can be more than the SA payable on death.

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

185) Which one of the following statement is correct
Statement A – There is not different between a term assurance plan and a whole life plan.
Statement B – A whole life plan is a term assurance plan with an indefinite term

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

186) Which one of the following statement is correct
Statement A – Only participating policies are entitled to the benefit of bonus
Statement B – A bonus is the return of additional premium paid by a participating policy

a) A is correct.
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

187) Which one of the following statement is correct
Statement A – A joint life policy may cover two brothers under one policy
Statement B – A joint life policy may cover a married couple under one policy
a) A is correct
b) B is correct
c) Both the statements are wrong.
d) Both the statements are correct.
e) No answer can be derived.

188) Which one of the following statement is true with regard to Children's policies?
a) Risk Will commence on deferred date automatically
b) Risk will commence on deferred date after satisfactory medical examination
c) Risk will commence on deferred date with enhanced premium
d) All the statements above are wrong
e) All the statements above are Correct

189) Which one of the following statement id correct
Statement A – Industrial assurance is meant only for industrial workers
Statement B – Industrial assurance is meant for people with low incomes
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

190) Who is benefited if a policy is under the salary savings scheme?
a) The policyholder
b) The insurer
c) The agent
d) All the three above
e) None of the above

191) State which one of the following statement is correct
Statement A – Group insurance is the same as SSS
Statement B – Premiums under some group policies are paid by Governments
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

192) Which of the following could be the basis of the cover in a group policy?
a) Height of the life insured
b) Age of the life insured
c) Size of the insured's family
d) All the three above
e) None of the above

193) State which one of the following statement is correct
Statement A – Members of a group will get certificates showing details of cover
Statement B – Profit sharing, in group insurance, is worked on actuarial bases
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

194) State which one of the following statement is correct
Statement A – The Ombudsman's authority is limited to claims matters only
Statement B – The Ombudsman is not a judicial authority
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

195) State which one of the following statement is correct
Statement A – The Ombudsman sits like a court with witnesses and lawyers
Statement B – The Ombudsman will not hear matters already before other courts
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

196) State which one of the following statement is correct
Statement A – The Ombudsman's recommendations are not binding on the complainant
Statement B – Insurers have to comply, if the complainant accepts what the Ombudsman says

a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

197) State which one of the following statement is correct
Statement A – Matters referred to the Ombudsman may not be decided for years
Statement B – The Ombudsman cannot modify the terms of acceptance of the proposal
a) A is correct
b) B is correct
c) Both the statements are correct.
d) Both the statements are wrong.
e) No answer can be derived.

Find out the odd man Out

198)
a) Mr. T. Vijayan
b) Mr. J. Hari Narayan
c) Mr. Kamlesh Goyal
d) Mr. Harpal Kalkrut
e) Mr. Kshitij Jain

199)
a) Endowment Plan
b) Money Back Plan
c) Term Insurance
d) Motor Insurance
e) ULIP

200)
a) Health Insurance
b) Life Insurance
c) Motor Insurance
d) Marine Insurance
e) Reinsurance

201)
a) IRDA
b) SEBI
c) P.F.R.D.A.
d) R.B.I.
e) TRAI

202)
a) LIC
b) New India Assurance Company
c) United India Insurance Company
d) Oriental Insurance Company Ltd.
e) National Insurance company Ltd.

201)
- a) Assets
- b) Benefit
- c) Liability
- d) Income
- e) Convenience

202)
- a) Accident
- b) Theft
- c) Earthquake
- d) Fire
- e) Result of Cricket Match

203)
- a) Mutual funds
- b) Equity Shares
- c) Debentures
- d) Insurance
- e) Bonds

204)
- a) Term Insurance
- b) Money Back Insurance
- c) Endowment Insurance
- d) Key man Insurance
- e) Pension Policy

205)
- a) Fire
- b) Flood
- c) Death
- d) Lightening
- e) Earthquake

206)
- a) Hazard
- b) Risk
- c) Peril
- d) Compensation
- e) Calamity

207)
- a) Huts Near Sea Coast
- b) Godwoons of Fire Crackers
- c) Proposer with history of Heart Attack
- d) Fraud
- e) Proposer working in Cal Miners.

208) Insurance
- a) Provides Security
- b) Enhances credit worthiness
- c) Makes policyholder rich
- d) Facilitates Trade
- e) Develop Long Term View

209)
- a) Risk Avoidance
- b) Risk Acceptance
- c) Risk Reduction
- d) Risk Retension
- e) Risk Transfer

210)
- a) Good Housekeeping
- b) Occupants additional weight on building then permitted
- c) Proper Packaging
- d) Installing Sprinklers
- e) Wearing Helmets

211)
- a) Loan
- b) Guarantor
- c) Mortasale Deed
- d) Insurance
- e) Collateral Security

212)
- a) Agent
- b) Broker
- c) Corporate Agent
- d) Bank
- e) TPA

213) For a contract to be valid if must contain
- a) Offer
- b) Acceptance
- c) Consideration
- d) Legal subject Matters
- e) Minor Party.

214)
- a) Let the Buyer be Beware
- b) Utmost Good faith
- c) Insurable Interest
- d) Disclosure of Material Facts
- e) Indemnity

215)
- a) Personal Statement
- b) Family History
- c) Birth Date Proof
- d) Occupation Details
- e) Government Publing the State

216)
- a) Husband & Wife
- b) Bettor and Bookies
- c) Employer & Employee
- d) Creditor & Debtor
- e) Partner & Partners.

217)
- a) Rider
- b) Money back policy
- c) Endowment Policy
- d) Term Insurance
- e) Whole Life Policy

218)
- a) Mediclaim
- b) Overseas Medical Insurance
- c) PA Policy
- d) Cancer Policy
- e) Endowment Policy

219)
- a) Warranties
- b) Representation
- c) Declaration
- d) Ex-Gratia
- e) Family History

220)
- a) Nomination
- b) Assignment
- c) Surrender
- d) Paid up
- e) Loan

221)
- a) IRDA Grivances Cell
- b) Ombudsman
- c) Consumer Court
- d) Civil Court
- e) Insurer's Redressal Officers

222)
- a) Insurance Act 1938
- b) LIC Act 1956
- c) Consumer Protection Act 1986
- d) IRDA Act 1999
- e) General Insurance Business Act 1972

223)
- a) Income Tax
- b) Wealth Tax
- c) Capital Gains Tax
- d) Service Tax
- e) Octroi Tax

224)
- a) State Bank of India
- b) Punjab National Bank
- c) ICICI Bank
- d) Bank of Maharashtra
- e) Corporation Bank

225)
- a) FICCI
- b) CII
- c) ASSOCHEM
- d) Indian Merchant Chamber
- e) Life Insurance Council

226)
- a) S.B.I.
- b) R.B.I.
- c) NABARD
- d) IDFC
- e) SIDBI

227)
- a) Refrigerator
- b) Mobile Handset
- c) House
- d) Insurance
- e) 4 Wheelar Car

228)
- a) Motor Insurance
- b) Personal Accident Insurance
- c) Mediclaim
- d) Household Insurance
- e) Plate glass Insurance

229)
- a) Cash
- b) Cheque
- c) Debit Cart
- d) Credit Cart
- e) Loan

230)
- a) Fire Insurance
- b) Personal Accident Insurance
- c) Motor Insurance
- d) Household Insurance
- e) Marine Cargo Insurance

231)
- a) P.A. Policy
- b) Fire Policy
- c) Motor Policy
- d) Engineering Policy
- e) Money Policy

232)
- a) Motor T.P. Policy
- b) Public Liability Policy
- c) Mediclaim
- d) Product Liability
- e) Plate glass Insurance

233)
- a) Facultative Treaty
- b) Excess of Loss
- c) Surplus Treaty
- d) Quota Share
- e) Ceding

234)
a) Policyholders
b) Agent
c) Underwriter
d) Actuary
e) Surveyor

ABBREVIATIONS

235) ECGC :
a) External Credit Guarantee Corporation
b) Extinguished Credit Guarantee Corporation
c) Extended Credit Guarantee Corporation
d) Extreme Credit Guarantee Corporation
e) Export Credit Guarantee Corporation

236) COPA :
a) Customer Protection Act
b) Controlled Protection Act
c) Consumer Protection Act
d) Consumer Preservation Act
e) Consumer Performance Act

237) FERA :
a) Forest Exchange Regulation Act
b) Foreign Exchange Regulations Act
c) Former Exchange Regulation Act
d) Forward Export Regulation Act
e) Foreign Export Regulation Act

238) LOP:
a) Loss Of Profits
b) Lot Of Procedures
c) Loss Of Procedure
d) Lot Of Patience
e) Lot Of performance

239) WCA :
a) Workers Compensation Act
b) Workers Compressed Act
c) Workmen's Compensation Act
d) Workers Commitment Act
e) Workers consideration Act

240) BPP :
a) Boiler Prestige Plant
b) Boiler and Pressure Plant
c) Burglary Pressure Plant
d) Baggage Preservation Plant
e) Burglary Preservation Product

241) IAR :
a) Indian All Risks
b) International All Risks
c) Indian Accident Risks
d) Institutional All Risks
e) Industrial All Risks

242) ICU :
a) Intensive Care Units
b) International Care Units
c) Indian Care Unit
d) Institutional Care Unit
e) Integrated Care Unit

243) NHFS :
a) National Family Hygiene Survey
b) Nodal Family Health Survey
c) National Family Health Survey
d) National Family Health Servants
e) National Family Health Service

244) IAI :
a) Indian Actuaries Institute
b) International Actuaries Institute
c) Implied Actuaries International
d) Integrated Actuaries Institute
e) Institute of Actuaries of India

245) PIA :
a) Protected Insurance Association
b) Protection and Indemnity Associations
c) Perfect Insurance Association
d) Popular Insurance Association
e) Protection Individual Association

246) IBNR :
- a) Incurred But not Reported
- b) Indian bureau national Representation
- c) Indian Business Nodal Register
- d) Insured Business Not Recovered
- e) Institutional Business Not Registered

247) TLO :
- a) Total Lost Ordinance
- b) Team Loss Organization
- c) Total Losses Only
- d) Testimony of Loss Occurred
- e) Turnover Lost Occurred

248) ATL :
- a) Accrued Total Loss
- b) Assumed Total Loss,
- c) Assured Total Loss
- d) Adjusted Total Loss
- e) Actual Total Loss

249) CTL :
- a) Constructive Total Loss
- b) Combined Total Loss
- c) Consumer Total Loss
- d) Customized Total Loss
- e) Commercial Total Loss

250) GA :
- a) General Average
- b) Geographic Average
- c) Generated Average
- d) General Applications
- e) General Adjustment

251) PA :
- a) Particular Application
- b) Particular Average
- c) Particular Adjustment
- d) Preferred Average
- e) Perfect Average

252) TPA :
- a) Transport Packaging Administrator
- b) Tourist Party Administrator
- c) Team Party Administrator
- d) Third Party Adjustments
- e) Third Party Administrators

253) TAC :
a) Third Advisory Committee
b) Team Advisory Committee
c) Tariff Advisory committee
d) Tariff Adjustment Committee
e) Tariff advancement committee

254) IIRA :
a) Institute of Insurance and Risk Management
b) Insurance India Risk Management
c) Indian Institute of Risk Management
d) Indemnity Insurance & Risk Management
e) Insurable Interest and Risk Management

255) WTA :
a) Weight Tax Act
b) Wealth Tax Act
c) Worker Taxation Act
d) World Taxation Association
e) Wealth Tribunal Act

256) ICA :
a) Indian Companies Act 1872
b) Indian Corporation Act 1872
c) Indian Contract Act 1872
d) Insurance Contract Act 1872
e) Insurance Companies Act 1872

257) ISA 1889 :
a) Indian Stamps Act 1889
b) Indian Seaman Act 1889
c) Indian Society Act 1889
d) Insurance Stamp Act 1889
e) International Society Act 1889

258) IRA 1908:
a) Indian Registration Act, 1908
b) Indian Regulation Act 1908
c) Indian Reference Act 1908
d) International Remuneration Act 1908
e) Indian Restrictions Act 1908

259) SGA 1930 :
- a) Sold Goods Acts 1930
- b) Sale Of Goods Act 1930
- c) Serial Goods Acts 1930
- d) Special Goods Act 1930
- e) Society of Goods Act 1930

260) MVA 1988 :
- a) Motor Vehicles Act, 1988
- b) Motor Variation Act 1988
- c) Miscellaneous Variations Act 1988
- d) Marine Vessels Act 1988
- e) Material voyage Act 1988

261) MACT :
- a) Motor Accidents Claims Tribunal
- b) Motor Action Claims Tribunal
- c) Master Accidents Claims Tribunal
- d) Marine Accidents Claims Tribunal
- e) Motor Accidents Claims Treaty

262) MIA 1963 :
- a) Marine Industry Act 1963
- b) Marine Indemnity Act 1963
- c) Marine Integration Act 1963
- d) Motor Insurance Act 1963
- e) Marine Insurance Act 1963

263) CGS 1925 :
- a) Carriage and Godowon of Sea Act 1952
- b) Care Of Goods by Sea Act 1925
- c) Compensation for Goods by Sea Act 1925
- d) Carriage of Goods by Sea Act, 1925
- e) Cancellation of goods by sea Act 1925

264) MSA 1958
a) Mechanical Shipping Act 1958
b) Merchant Shipping Act, 1958
c) Merchant Shopping Act 1958
d) Management of Shipping Act 1958
e) Motor Shipment Act 1958

265) BLA 1855 :
a) The Bill Of Landing Act, 1855
b) Bill Of loading 1855
c) Bill of Logistics 1855
d) Baggage lost Act 1855
e) Backdoor Loading Act 1855

266) IPA 1963 :
a) Indian Premier Act 1963
b) International Port Act 1963
c) The Indian Ports (Major Ports) Act, 1963
d) Insurance of Port Act 1963
e) Indemnity of Port Act 1963

267) IRA 1989 :
a) Indian Registration Act 1989
b) Indian Records Act 1989
c) Indian Association 1989
d) Indian Reconstruction Act 1989
e) Indian Railways Act, 1989

268) RCTA 1898 :
a) Railway carriers Tribunal Act 1989
b) Railway Claims Trust Act 1989
c) Railways Claims Tribunal Act, 1898
d) Railway Construction Tribunal Act 1898
e) Railway compensation Act 1898

269) MMTA 1993 :
a) Multi Model Transportation Act, 1993
b) Modern Model Transport Act 1993
c) Multi Model Transit Act 1993
d) Mainstream Model Transport Act 1993
e) Multi Modern Technology

270) PLI 1991 :
a) Public Liability Insurance Act, 1991
b) Postal Life Insurance Act 1992
c) Provisional Liability Insurance Act 1991
d) Project Liability Insurance Act 1991
e) Professional Liability Insurance Act 1991

271) ACA 1996 :
a) Adjustor & Counsellors Act 1996
b) Arbitrations and Conciliation Act 1996
c) Arbitration of Consumers Act 1996
d) Adjustment & Correction Act 1996
e) Arbitration & Commerce Act 1996

272) GDP :
a) Gross Division Product
b) Global Domestic Product
c) Gross Domestic Product
d) Grand Domestic Product
e) Gain in Domestic Product

Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans
1	a	11	a	21	a	31	a	41	d	51	c
2	a	12	b	22	c	32	a	42	c	52	b
3	a	13	a	23	d	33	a	43	d	53	b
4	c	14	c	24	c	34	b	44	b	54	b
5	a	15	d	25	d	35	b	45	a	55	b
6	a	16	c	26	d	36	c	46	c	56	a
7	a	17	a	27	c	37	a	47	a	57	a
8	a	18	d	28	a	38	b	48	c	58	d
9	b	19	a	29	a	39	a	49	b	59	d
10	a	20	a	30	a	40	a	50	c	60	a

Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans
61	c	71	a	81	c	91	b	101	e	111	d
62	a	72	c	82	c	92	b	102	d	112	b
63	b	73	b	83	e	93	e	103	d	113	d
64	b	74	c	84	d	94	d	104	b	114	d
65	a	75	d	85	c	95	d	105	b	115	c
66	d	76	e	86	a	96	d	106	d	116	d
67	b	77	e	87	a	97	d	107	d	117	c
68	a	78	c	88	c	98	d	108	d	118	d
69	d	79	e	89	b	99	c	109	d	119	d
70	d	80	a	90	b	100	a	110	d	120	d

Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans
121	b	131	d	141	a	151	c	161	c	171	c
122	d	132	a	142	a	152	c	162	d	172	d
123	c	133	b	143	c	153	d	163	a	173	d
124	c	134	b	144	c	154	d	164	b	174	d
125	d	135	c	145	d	155	c	165	b	175	a
126	a	136	c	146	d	156	b	166	b	176	d
127	d	137	c	147	d	157	d	167	a	177	b
128	b	138	d	148	c	158	c	168	d	178	b
129	c	139	c	149	a	159	d	169	b	179	c
130	a	140	c	150	a	160	a	170	d	180	d

Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans
181	d	191	b	201	e	211	a	221	e	231	a
182	c	192	b	202	a	212	a	222	c	232	c
183	a	193	c	203	c	213	e	223	e	233	e
184	c	194	c	204	d	214	a	224	c	234	a
185	c	195	b	205	c	215	e	225	e	235	e
186	a	196	c	206	d	216	b	226	a	236	c
187	c	197	c	207	d	217	a	227	d	237	b
188	a	198	c	208	c	218	e	228	a	238	a
189	b	199	d	209	b	219	d	229	e	239	c
190	d	200	e	210	b	220	e	230	e	240	b

Q. no.	Ans	Q. no.	Ans	Q. no.	Ans	Q. no.	Ans		
241	e	249	a	257	a	265	a		
242	a	250	a	258	a	266	c		
243	c	251	b	259	b	267	e		
244	e	252	e	260	a	268	c		
245	b	253	c	261	a	269	a		
246	a	254	a	262	e	270	a		
247	c	255	b	263	d	271	b		
248	e	256	c	264	b	272	c		

Glossary of Life Insurance

Actuarial Cost Method: With this method Retirement Plan contribution are determined. Forecasts for mortality, interest and expenses, estimate future labour turnover, salary scale and retirement Benefit.

Adjustable Life Insurance: The flexibility in insurance Plane allow in policy Holder to change plane of Insurance Cover Age Limit Maximum and Minimum Age for acceptance of Policies.

Annuitant: There person entitle to receive annuity, during whose life annuity is payable.

Annuity: A contract providing an income for specified period of time. Number of years /for life.

Annuity Certain: Providing Income for specified number of years.

Annuity Consideration: Making regular periodic payments for an annuity.

Cash Surrender Value: The voluntary termination yields available in cash by the owner before death or maturity of the policy.

Convertible Term Insurance: Term insurance exchangeable for and the plan of insurance without evidence of insurability at the option of policy holder...

Endowment: Amount payable on maturity if living or to beneficiary if insured dies prior to maturity period.

Extended Term Insurance: Insurance plane providing original insurance amount for limited period of time and available as non for feature option.

Flexible Premium Policy or Annuity: Annuity or a life accident policy which facilitates policy holder to very the amounts or mode of premium payment

Fixed Annuity: Annuity which guarantees a fixed amount for the periodic payment.

Face Payment: Amount mentioned on the face of policy payable in case of death/maturity excluding additional amounts payable under accidental death, dividends.

Group Annuity:
Pension Plan issued to employer, wherein under a master contract annuities to a group of people is provided on retirement. Individual member is issued certificate an evidence of contract.

Glossary of Non-Life Insurance

Ad valorem: Designates an assessment of taxes against property literally according to the value.
Captive insurer: Insurer founded by and insuring a substantial portion of the loss exposures of one or more of its major insured's. From the standpoint of the founding "parent" company (ies) a captive is a subsidiary which provides insurance to its parent's as well as to others.
Pure captive: Captive having only one parent and insuring the loss exposures of that one parent
Claims, "without prejudice": In all correspondence word "Without Prejudice" is used on letters on the .Meaning that whatever action the insurers may take in the processing of the claim, they reserve their right to deny liability ultimately if they are legally entitled to do so.
Demurrage: Penalty levied against cargo that is held beyond the generally allowed number of days "free time" of storage, or against a vessel at port of loading or discharge longer than agreed.
Erosion: The action on land of such natural causes as wind, running water, or ice causing wearing away of elements of the land.
Escalation: Increase in the value of the property insured during the period of insurance.
Lapse: The expiration of forfeiture of an insurance policy by non-payment of due premium.

Premium: Payment required for insurance.

i) **Deposit premium:** Premium paid a the inception of a policy which provides for future premium adjustments. It is based on an estimate of the final premium.

ii) Earned premium: Portion of the premium for a single policy or group of policies, that an insurer is entitled to recognize as earned revenue because a similar portion of the coverage period has elapsed. For example under an annual policy, one-third of the total premium is earned after the first four months of coverage.

iii) Gross Premium: (a) Entire periodic premium for a particular type of insurance, consisting of the net premium plus lodgings. (b) Premium for participating insurance before deduction for anticipated dividends.

iv) **Minimum premium**: Least premium specified in a rating manual or in underwriting rules, for which a policy or an endorsement can be issued or for which a unit of exposure can be insured.

v) **Net premium**: In health insurance, portion of the gross premium needed to pay benefits provided by the insurance contract, with no allowance for expenses; contingencies or profit. The property-liability equivalent is “pure premium.”

vi) **Premium rate**: Price per unit of insurance, usually per Rs.100 or Rs.1000 per year.

vii) **Pure premium**: Portion of the total premium needed to pay expected losses and loss adjustment expenses, with no allowance for the insurer’s expenses or profit.

viii) **Premium written**: Total amount of premium charged for the policies and insurer “writes”: (by selling new policies or renewing expiring ones, during a specified period, such as one month or one year. Because most policies are for terms longer than the period for which the written premiums are calculated, the premiums an insurer writes during a particular period will not equal the premium it earns during that period. Refer: “Premium, earned.”

ix) Unearned premium: Portion of a property or liability insurance premium equal to the unexpired portion of the period for which the total premium has been paid. The unearned premium equals the gross premium minus the earned premium. Thus, for an annual policy, at the end of the first month of coverage, eleven-twelfths of the premium is unearned.

Standing charge: Constant charges prevailing throughout whether the turnover is reduced or not.